

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	2,134.96	2,134.96	2,145.96	2,145.96	2,134.96	2,145.96	11.00	0.52%
Personal Services	129,928,240	142,044,054	140,980,108	141,534,638	271,972,294	282,514,746	10,542,452	3.88%
Operating Expenses	349,392,502	379,613,277	376,081,320	383,822,209	729,005,779	759,903,529	30,897,750	4.24%
Equipment & Intangible Assets	1,902,440	1,736,957	3,032,975	2,086,440	3,639,397	5,119,415	1,480,018	40.67%
Capital Outlay	15,979,768	12,870,929	15,979,768	15,979,768	28,850,697	31,959,536	3,108,839	10.78%
Local Assistance	447,116	407,684	447,116	447,116	854,800	894,232	39,432	4.61%
Grants	14,494,485	24,049,038	17,077,140	15,227,140	38,543,523	32,304,280	(6,239,243)	(16.19%)
Transfers	13,701	10,283	13,701	13,701	23,984	27,402	3,418	14.25%
Debt Service	0	500	0	0	500	0	(500)	(100.00%)
Total Costs	\$512,158,252	\$560,732,722	\$553,612,128	\$559,111,012	\$1,072,890,974	\$1,112,723,140	\$39,832,166	3.71%
General Fund	0	0	0	0	0	0	0	n/a
State Special	210,536,687	245,824,393	233,061,097	231,442,754	456,361,080	464,503,851	8,142,771	1.78%
Federal Special	301,621,565	314,908,329	320,551,031	327,668,258	616,529,894	648,219,289	31,689,395	5.14%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$512,158,252	\$560,732,722	\$553,612,128	\$559,111,012	\$1,072,890,974	\$1,112,723,140	\$39,832,166	3.71%

Agency Description

Mission Statement: To serve the public by providing a transportation system and services that emphasize quality, safety, cost effectiveness, economic vitality, and sensitivity to the environment.

The Department of Transportation is the agency responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. It is responsible for collecting and distributing highway user fees and fuel taxes. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports. The department represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

Agency Highlights

Department of Transportation Major Budget Highlights	
♦	<p>The proposed HB 2 total fund budget for the department would increase by \$39.8 million, or 3.7 percent, from the 2009 biennium to the 2011 biennium</p> <ul style="list-style-type: none"> Contractor payments for the federal-aid construction program account for the largest increase and are at the federal FY 2008 funding levels and corresponding 2007 tentative construction plan The state funded construction program is moved from the Construction Program to the Maintenance Program and would increase by \$12.3 million over the biennium to fund it at \$10.0 million per year or the level of maintenance of effort to maintain favorable federal funding rates Increases in diesel fuel and gasoline prices contribute significantly to \$4.5 million in increases in equipment rental rates paid to the department's Equipment Program Increasing the pavement marking program to typical annual levels would add \$3.8 million

<ul style="list-style-type: none"> • Continuing to monitor commercial vehicles for safety issues around Montana's northern border would add \$3.5 million federal special revenue • Funding for the Motor Carrier Safety Assistance Program and Expanded Commercial Vehicle Information Systems and Networks projects would add \$2.1 million state special revenue funding from Unified Carrier Registration fees • Funding to provide grants to local transit entities to purchase buses would add \$2.1 million federal funds • Higher costs for chemical deicing solution would add \$1.2 million state funds • Realigning the management structure for motor carrier enforcement from three to five regions would add \$1.0 million state special revenue <ul style="list-style-type: none"> ◆ 11.00 FTE are added to the department budget for: <ul style="list-style-type: none"> • A funding switch to move a current 1.00 FTE from funding under a statutory appropriation to HB 2 funding to administer tribal fuel tax refunds and agreements • 8.00 FTE to increase coverage at Interstate 90 weigh stations • 1.00 FTE to coordinate projects of the department's traffic records strategic plan • 1.00 FTE to coordinate state and tribal highway safety initiatives ◆ Department-wide reductions are proposed to reduce funding for training
Major LFD Issues
<ul style="list-style-type: none"> ◆ The highways state special revenue account is out of balance and projected to be depleted in FY 2010 <ul style="list-style-type: none"> • Major revenue sources are no longer adequate for long-term highway funding • A comprehensive study of state transportation funding is recommended ◆ The federal highway trust fund is nearly depleted, federal funding has not been authorized for most of the 2011 biennium, and the federal-aid highways funding levels are speculative ◆ The fund that supports the operations of the Aeronautics Division is out of balance and nearly depleted

Agency Discussion

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to program-specific goals and objectives raised by LFD staff are located in the program section.

2009 Biennium Major Goals

The following provides an update on the major goals monitored during the current interim

- Successes

- Pavement on state highways are being maintained above the goal level for condition and ride smoothness
- Congestion on state highways is within desirable or superior ranges

Any issues related to program-specific goals and objectives raised by LFD staff are located in the program section.

Personal Services

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the Legislative Fiscal Division.

- Agency Market

- Agency current policy specifies entry at 100 percent of the 2006 executive branch market survey or to maintain internal equity within the department. The agency plans for a target market ratio of 100 percent for the 2011 biennium relative to the 2008 executive branch market survey
- The agency estimates the personal services budget for the 2011 biennium would place the agency, on average, at 96 percent of the market of the 2008 executive branch market survey. Prior to making the October 1, 2008 adjustments for HB 13 of the 2007 Legislature, the agency average market ratio was 111 percent of market relative to the 2006 executive branch market survey
- The agency has converted all employees, except blue collar workers, to the broadband pay plan as required in HB 13 of the 2007 Legislature
- The agency states that since implementing the broadband pay plan and the agency market policy all programs have seen less turnover and less vacancies
- The agency implemented the broadband pay plan by holding positions open and using the savings from these vacancies, HB 2 personal services funding, and HB 13 funding to place employees into a pay structure that ranges from 80 to 95 percent of market as determined in an independent market survey developed by a contractor of the agency

- Legislatively Imposed Vacancy Savings

- The agency used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate.

LFD COMMENT

In FTE-hours the agency achieved an agency average of nearly 5.7 percent vacancy savings. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division underspent its personal services authority appropriated by the 2007 Legislature by 6.8 percent.

- Obstacles

- Other than funding, the agency has identified no obstacles to achieving its target market goal of 100 percent of market relative to the 2008 executive branch market survey

Other Major Issues the Department Faces

The legislature will be faced with making decisions on the department budget request that reflects the following general themes and will be explained in more detail below:

- A state fund with a history of instability and a major funding source that does not reflect current and future trends
- A federal fund showing signs of instability

Funding for Montana Highways

Vast Highway Network

Montana has a vast network of highways that plays a major role in Montana's transportation needs. Montana has nearly 70,000 centerline miles of public roads, of which the Department of Transportation (DOT) has responsibility for nearly 11,000. The remaining roughly 59,000 miles are mostly rural and municipal roads maintained by local governments or private citizens. The department would spend roughly \$1.1 billion in the 2011 biennium to maintain, rebuild, and operate the 11,000 miles of paved roads under its responsibility. Funding to support this effort would be roughly 42.0 percent from state sources and 58.0 percent from federal sources.

Sources of Revenue

The department is funded from a combination of state special revenue and federal special revenue. State special revenue can be grouped into two general categories: those that are protected by the state constitution and those that are not. The Constitution of the State of Montana states that revenues from gross vehicle weight fees and excise and license taxes on gasoline, fuel, and other energy sources that are used to propel vehicles on public highways are to be used solely for paying obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; and for enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Non-restricted revenues are derived from special use permits and motor fuel penalties and interest payments. In the base and for the 2011 biennium all highway construction expenditures from state funds are accounted for in the highways state special revenue restricted account, which is used as the match for federal funding of the department.

Federal aid for highway construction is primarily realized from the distribution of revenue derived from federal excise taxes on motor fuels and other transportation products, such as heavy truck tires. Montana has historically received significantly more federal-aid highway construction funds than are collected in federal motor fuels excise taxes from Montana sources. Montana receives more than \$2.20 of federal funding for highways for every \$1.00 collected in the state and sent to the federal highway trust fund.

Federal-Aid Highway Funding

The department receives federal-aid highway funding from the Federal Highway Administration (FHWA), typically from authorizations in six-year funding bills. The current federal authorization legislation is called the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU provides authorization for federal-aid transportation programs and funding for federal fiscal years 2005 through 2009.

Since federal FY 2009 ends only one quarter into FY 2010 and Congress has not approved the next federal highway funding authorization, the department has developed a budget for the 2011 biennium using anticipated funding levels similar to what Montana received for federal FY 2009.

Sliding Scale Match

Montana currently receives federal highway construction funds based on a sliding scale match formula that includes factors for the amount of federal land in the state and the amount of financial contribution the state makes to maintain the federal-aid highway system with state dollars. The current match ratio is 87 percent federal to 13 percent state for reimbursable federal-aid projects. In order to maintain this favorable match, Montana must provide maintenance of effort by fully funding a certain level of construction activity with state funds. The department estimates that roughly \$10 million of state-funded highway construction is needed annually to maintain the current match ratio. A decision package

has been requested to bring the state funded construction program to this level (see DP 318 - State Funded Construction - Program Transfer in the Maintenance Program)

In order to utilize all of the federal funds allotted to the state, state funds must be available to provide: 1) planning functions required in the federal funding law; 2) maintenance of the federal-aid highway system to FHWA standards; 3) adequate management and oversight of federal-aid construction projects; 4) a minimum construction program supported by 100 percent state funds (\$10 million annually); 5) matching funds for federal-aid construction funds; and 6) adequate working capital to pay operating expenses with 100 percent state funds until federal reimbursement is provided. These factors all contribute to the need to maintain a certain working capital level to support cash flow obligations of the department. In the past, the department has referred to \$10.0 million as an adequate working capital balance.

The department budget request includes adjustments to shore up HSRA, the need for which is discussed below, but provide the necessary maintenance of effort to maintain the favorable match.

Highways State Special Revenue Account Working Capital Analysis

The highways state special revenue account provides the state funding to match more than \$320 million annually of federal transportation funding, with a resultant more than \$550 million of annual transportation spending to maintain and expand the state transportation infrastructure. The HSRA has historically experienced imbalances in which expenditures exceeded revenues. The following working capital analysis of HSRA shows the financial condition of the account going into the 2009 legislative session. The working capital analysis of HSRA is shown below. Separate analyses and figures are provided for the restricted (HSRA-R) and nonrestricted (HSRA-NR) accounts as they each have different legislative voting requirements and statutory designated revenues and restrictions.

Constitutional Restricted Account

The following describes working capital analysis of the highways state special revenue constitutionally restricted account.

Account Use - HSRA-R currently funds the operations of five programs of the DOT that administer, enforce, and support the construction, maintenance, and safe operations of Montana highways. HSRA-R also funds Long-range Building Program projects for DOT facilities and those of the Department of Fish, Wildlife and Parks (FWP) related to roadway activities, and for programs of the Department of Justice (DOJ) that support highway or motor vehicle activities. Programs of DOJ that are partially funded with HSRA are: 1) Legal Services Division; 2) Motor Vehicle Division; 3) Montana Highway Patrol; 4) Central Services Division; and 5) Information Technology Services Division. HSRA-R also funds statutory appropriations that total \$21.3 million per year, alcohol production incentives (gasohol) capped at \$6.0 million per year, and ethanol consumption incentives. The analysis assumes no changes in the allocations of the funds in future biennia, except that the department will comply with Montana law and not transfer the balance from HSRA-NR to HSRA-R as it has previously. Instead, funds will be directly appropriated from HSRA-NR. The executive budget for the 2011 biennium includes decision packages in the Department of Justice to fund portions of the current HSRA-R funding from HSRA-NR.

Assumptions Used in the Working Capital Projections - The working capital analysis for HSRA-R reflects actual expenditures for FY 2008, budgets appropriated by the 2007 Legislature for FY 2009, and the executive budget request for the 2011 biennium. For FY 2009, the analysis also assumes that all appropriations currently valid, including those approved for prior biennia for capital projects, would be fully expended. Revenue estimates for FY 2009 and the 2011 biennium are those approved by the Revenue and Transportation Interim Committee (November 2008) for those revenues of HSRA for which it makes recommendations.

Analysis Results – The working capital analysis for HSRA-R is illustrated on the following figure. Declining revenues and increasing expenditures are depleting the HSRA-R balance. HSRA-R entered FY 2009 with a positive \$41.1 million balance. If all valid appropriations are expended and a supplemental appropriation proposed by the executive of \$2.6 million is approved, HSRA-R will begin the 2011 biennium with a \$5.4 million balance. However, revenue shortfalls

would deplete the balance part way through FY 2010. Revenue shortfalls total \$34.4 million for the 2011 biennium would leave the legislature with a \$29.0 million funding gap at the end of the 2011 biennium. Even if the \$29.0 million imbalance were corrected, HSRA-R would end the 2011 biennium without any reserves.

Working Capital Balance				
Highways State Special Revenue - Restricted Account				
Fiscal Years 2008 - 2011				
(in Millions)				
Description	FY 2008 Actual	FY 2009 Approp.	FY 2010 Budget	FY 2011 Budget
Beginning Working Capital Balance	\$24.0	\$41.1	\$5.4	(\$12.7)
Revenues				
Gasoline tax (net of refunds)	125.4	117.8	117.2	116.6
Diesel tax (net of refunds)	71.5	65.1	66.0	67.0
GVW	22.1	22.5	22.9	23.8
Federal indirect cost recovery	37.8	43.0	41.5	42.7
Other revenues:				
Transfer in from highways nonrestricted account	11.4	2.8	0.0	0.0
All other revenues	<u>13.5</u>	<u>8.3</u>	<u>8.3</u>	<u>8.3</u>
Total other revenues	24.9	11.1	8.3	8.3
Revenue deductions:				
Gasahol tax reduction	(1.0)	(1.4)	(1.7)	(2.1)
Alcohol production incentives (15-70-522, MCA)	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total revenue deductions	(1.0)	(1.4)	(1.7)	(2.1)
Total Revenues	<u>\$280.6</u>	<u>\$258.2</u>	<u>\$254.2</u>	<u>\$256.3</u>
Expenditures				
Department of Transportation (DOT)				
Statutory appropriations	20.9	20.9	21.3	21.3
HB 2 and HB 13	208.1	238.3	227.9	228.2
Supplemental appropriation		2.6		
Non-budgeted transactions (including carry forw	<u>4.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total DOT	233.3	261.9	249.3	249.5
Department of Justice (DOJ)	27.4	28.7	19.8	19.8
Long-range Building Program				
Maintenance and repair of DOT buildings	1.3	2.9	2.5	2.5
Department of Fish, Wildlife & Parks	<u>1.0</u>	<u>0.4</u>	<u>0.8</u>	<u>0.8</u>
Total Long-range Building Program	2.2	3.3	3.3	3.3
Total Expenditures	<u>\$263.0</u>	<u>\$293.9</u>	<u>\$272.3</u>	<u>\$272.6</u>
Revenues less expenditures	17.6	(35.7)	(18.1)	(16.3)
Adjustments	(0.6)			
Ending Working Capital Balance (without reversion	<u>\$41.1</u>	<u>\$5.4</u>	<u>(\$12.7)</u>	<u>(\$29.0)</u>

Not included in the estimates for the 2011 biennium are pay plan increases that would increase personal services funding, which had not been made public by the executive as of this writing. Assuming the legislature approves a pay plan bill that increased annual funding by 3 percent per year partially through the fiscal years, as it has in the past, additional costs for a pay plan would increase HSRA-R expenditures by \$2.7 million in FY 2010 and \$6.9 million in FY 2011. Pay plan increases would increase the \$29.0 million funding deficit to \$38.6 million by the end of the 2011 biennium.

Analysis Will Likely Change - The department has submitted a budget request for the 2011 biennium based on federal funding levels for federal FY 2008. The federal FY 2009 levels have been provided by FHWA to the department and the department is in the process of revising its construction plans to address those revised funding levels. Historically, the department revises several of the key budget adjustments from the ones presented in the request analyzed by legislative staff to reflect a revised and updated construction plan. The legislature should be advised that the department request will likely change prior to appropriations subcommittee hearings and the working capital analysis will change as well. See the Program Narrative for the Construction Program for further details of likely changes.

A further discussion of issues with long-term revenue outlook is included in the issues section.

Nonrestricted Account

The following describes working capital analysis of the highways state special revenue nonrestricted account.

Account Use – HSRA-NR currently funds annual transfers of \$0.1 million to the noxious weed trust fund. During past and the current biennium, the department transferred the balance from HSRA-NR to HSRA-R and made expenditure of these funds with appropriation of HSRA-R funds. The Legislative Finance Committee identified this practice as not being allowed in statute and directed the executive to propose a budget that funds appropriations directly from HSRA-NR for the 2011 biennium. The working capital balance for HSRA-NR reflects this direction. To implement the Legislative Finance Committee concern, the executive funded portions of the Department of Justice with HSRA-NR.

Assumptions Used in the Working Capital Projections - The working capital analysis for HSRA-NR includes actual activity for FY 2008 including revenues and transfers, whether specified in statute or not allowed. For FY 2009, only the statutory transfer to the noxious weed account and the first quarter FY 2009 transfer to HSRA-R were included as expenditures. Expenditures for the 2011 biennium are the executive budget request to fund a portion of DOJ directly with HSRA-NR. Revenue estimates for FY 2009 and the 2011 biennium are those approved by the Revenue and Transportation Interim Committee (November 2008) for those revenues of HSRA for which it makes a recommendation or FY 2008 levels for those where it does not.

Analysis Results - The working capital analysis for HSRA-NR is illustrated on the following figure. The analysis shows that if the HSRA-NR balance is not transferred to HSRA-R for the final three quarters of FY 2009, the balance entering the 2011 biennium would be just under \$8.9 million. For the 2011 biennium, revenues are projected to exceed planned expenditures by just over \$3.2 million and FY 2011 would end with a balance of \$12.1 million. This balance would be available for the legislature to appropriate, perhaps to offset a portion of the shortfall of HSRA-R funds.

Working Capital Balance Highways State Special Revenue - Nonrestricted Account Fiscal Years 2008 - 2011				
Description	FY 2008 Actual	FY 2009 Approp.	FY 2010 Budget	FY 2011 Budget
Beginning Working Capital Balance	\$95,773	\$151,747	\$8,880,727	\$10,442,616
Revenues				
Transfer in from the general fund	3,096,301	3,142,746	3,189,887	3,237,735
HJR 2 estimated GVW	8,130,991	8,217,454	8,305,045	8,394,857
All other revenues	<u>236,957</u>	<u>236,957</u>	<u>236,957</u>	<u>236,957</u>
Total Revenues	<u>\$11,464,249</u>	<u>\$11,597,157</u>	<u>\$11,731,889</u>	<u>\$11,869,549</u>
Expenditures				
Department of Justice	0	0	10,070,000	10,120,000
Nonbudgeted transfer out - to restricted account (see Note	11,309,235	2,768,177	0	0
Statutory transfer to noxious weed state special revenue ac	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total Expenditures	<u>\$11,409,235</u>	<u>\$2,868,177</u>	<u>\$10,170,000</u>	<u>\$10,220,000</u>
Revenues less expenditures	55,014	8,728,980	1,561,889	1,649,549
Adjustments	960			
Ending Working Capital Balance	<u>\$151,747</u>	<u>\$8,880,727</u>	<u>\$10,442,616</u>	<u>\$12,092,165</u>
Note 1: Not allowed in 15-70-125, MCA				

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Condition of Roads and the Link to Funding

The state highway fund is still solvent, and the fund can always be balanced if construction and maintenance expenditures are adjusted to conform to funding realities. However, what are the impacts to the condition of the roads from balancing the fund through these means and what are the impacts from a stressed federal funding source and federal funding uncertainties of the road conditions (discussed in the following sections)?

The mission of the department is to serve the public by providing a transportation system and services that emphasize quality, safety, cost effectiveness, economic vitality, and sensitivity to the environment. It does this primarily by managing the state highway infrastructure so it will allow the public to safely travel, without unnecessary congestion, at a cost that is not financially overburdening, and in a way that is sensitive to the environment. Safety of the highways and the driving experience of the traveling public are strongly influenced by the condition of this infrastructure.

The department has established program goals to fulfill this mission. The legislature may wish to discuss with the department how the current financial conditions of the funds that support the mission of the department and the federal funding uncertainties will impact highway conditions and what performance indicators are appropriate to monitor. The legislature may also wish to recommend that the Legislative Finance Committee monitor the performance indicators during the interim. The goal monitored in the 2009 biennium is one way the legislature could continue to monitor the outcomes related to road and bridge condition, traffic safety, and congestion during the 2011 biennium.

The legislature may also want to address the financial condition of HSRA-R and other factors that may impact the

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long- term funding for highways.

Both the state and federal funds that support construction and maintenance of highways are stressed. The condition of state funds was discussed earlier. The following discusses the condition of the federal fund and federal funding uncertainties.

Federal Funding Uncertainties

The legislature will be faced with uncertainties imposed by a broken federal trust fund, no federal highway authorization for the majority of the 2011 biennium, and economic stimulus. All will impact the highway construction projects that can be planned by the department and will add a dimension of speculation to the department's budget, especially in areas impacted by federal funds.

The source of federal funds, the federal highway trust fund, is not financially solvent and the Congress will be asked to fix the solvency of this funding source. Also, the mechanism used to allocate federal funds to states to fund national transportation priorities will end after the first quarter of FY 2010 and the Congress still needs to address this funding mechanism. Congress' actions to fix the federal fund solvency and to set the allocations of future federal transportation funds to states may not occur until after the legislature completes its work in the 2009 legislative session.

Federal Highway Trust Fund - In September 2008, the Secretary of the U.S. Department of Transportation (US DOT) announced that the federal highway trust fund was basically broke. Projections indicated that the fund would have a zero balance by the end of the month and revenues for the remainder of federal FY 2009 were expected to be several billion dollars lower than authorized expenditures to states for construction highway projects already committed to. Congress responded by infusing a little over \$8 billion into the fund from the general fund to allow the fund to meet its financial commitments for the remainder of SAFETEA-LU. When the secretary announced the fund was broke and prior to the general fund infusion, the US DOT took actions that impacted state funding by limiting and delaying federal reimbursements to states for previously authorized participation in federally funded highway projects. This action caused states to fund ongoing highway projects with state funds for longer than typical without receiving anticipated federal reimbursements. State highway funding cash flow could be adversely impacted if this event occurs again. This contingency places added emphasis on the need to maintain an adequate fund balance in HSRA-R. In the past, the department has stated that a \$10 million balance should be maintained.

Federal Funding Authorization - The current federal authorization legislation that funds federal participation in state transportation projects expires at the end of federal FY 2009, which is September 30, 2009. When Congress approves a new federal transportation authorization, the status and long-term viability of the federal highway trust fund will have a significant impact on the level of funding states receive to support highways. The fact that the authorization will likely occur after the legislature completes its business and the actions Congress will take to return the federal trust fund to a viable fund place a great deal of speculation on the department in determining its funding request for the 2011 biennium.

Economic Stimulus – Current discussions being publicized by President-elect Obama to address the current economic recession include creating jobs through funding for infrastructure. The current discussions focus around stimulating the economy by funding projects on the nation's roads and bridges. The current state of this funding is uncertain but the legislature may want to consider it in its discussions for the 2011 biennium budget of the department.

**LFD
ISSUE**Funding for the 2011 Biennium

As discussed above, how much federal funds and how much state funds will be needed to match these federal funds for the 2011 biennium is not known. Current discussions of economic stimulus to address the current national recession include providing funding directed at the nation's roads and bridges. Yet, the legislature will need to establish 2011 biennium appropriations for the department.

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The legislature may wish to discuss with the department how it would use various levels of federal funds within and above the level included in the department's budget. In the discussion, the legislature may want to include impacts for the following:

- How the funding would impact the condition of the highway infrastructure
- How the funding would impact the condition of the state highway fund
- How the legislature could monitor the outcomes in terms of condition of the highway infrastructure and safety and driving experience of the traveling public from the funding

In establishing the appropriations policy, the legislature may wish to use the performance measurements process as a tool for prioritizing expenditures of the department. The legislature may want to discuss which of the goals it considers key for the department to fulfill the mission and establish an appropriations policy around these key goals and their objectives. For instance, the legislature may want to focus its attention on the goals for the programs that expend the most state funds or would have the greatest impact on the condition of the transportation infrastructure. Below in descending order are the programs and their biennium HSRA-R funding for the 2011 biennium:

- Maintenance Program (\$230.2 million)
- Construction Program (\$155.1 million)
- General Operations Program (\$48.8 million)
- Motor Carrier Services Division (\$16.0 million)
- Rail, Transit, and Planning Division (\$6.0 million)

**LFD
ISSUE**Funding Highway Infrastructure for the Long-term

Motor fuel tax revenues comprise 70 percent of HSRA-R revenues. Recently, motor fuel tax revenues have been declining for a number of factors, much of which are related in one way or another to high fuel costs or the weakening economic situation. As the price of fuel goes up, consumers react by reducing travel where they can and purchasing more fuel efficient or alternate fuel vehicles. The same behaviors are expected in response to weakening economic conditions as consumers tighten their financial belts. The effect of these consumer behaviors is that fuel consumption has declined, which results in lower motor fuel tax collections for both the state and the federal funds that support highway construction, operations, and maintenance activities. Declining revenue felt by these consumer behavior changes is not isolated to state finances. The federal revenues are also declining and causing similar funding issues with the federal highways trust fund.

For years motor fuel taxes have been the major funding source for state and federal highway funds. However, as driver behaviors change and highway funds are used to fund other transportation functions that are not directly related to motor fuel consumption patterns, the benefit principle that once justified using motor fuel tax revenues to fund highway functions is no longer relevant. Simply stated, the benefit principle tells us that consumers of government services should be taxed in proportion to the benefit they obtain from those services. For motor fuel taxes charged for fueling automobiles, the benefit principle means that motor fuel taxes should be used exclusively to fund roads the vehicles drive on. Locally and nationally, motor fuel tax revenues now fund non-road functions that are funded with motor fuel taxes but don't participate in funding their costs in equal proportion to the benefits received or the outcome intended such as transit facilities and operations, bike and pedestrian trails and facilities, roadside beautification, and tax incentives for biofuel production facilities and biofuel use.

As driver patterns change to more fuel efficient vehicles and vehicles powered by alternative fuel sources that do not generate motor fuel taxes (electric and hybrid vehicles), factors that contribute to the need to expand the highway capacity, and operate and maintain highways continue to increase the cost for highways, but revenues from motor fuel taxes are declining. This in itself shows that motor fuel taxes are less compatible as a major revenue source for providing adequate funding for highways.

Just as the federal government found when the federal highway trust fund began to fail and it commissioned a study of

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federal highway funding, the major revenue source that funds highways in Montana may no longer be appropriate to fund these state functions into the future. Declining revenues and increasing costs have constantly impacted the account's long-term viability and the driving experience of the traveling public.

The time may now be right to take a more holistic look at the Montana highway funding model with an eye on restoring it to a viable fund for the long term.

Options available to the legislature to ensure the long-term viability of state transportation funding include:

- Do nothing and continue to rely on the executive to manage the fund or propose solutions
- Direct the executive to evaluate state transportation funding and provide recommendations to the legislature
- Conduct a legislative study of state transportation funding and make recommendations to the legislature

The legislature may want to consider a study resolution for the next interim to look at all aspects of highway funding in Montana. Such a study could be limited to identifying and addressing weaknesses in fuel taxes as a major source of funding Montana's highways, or it could expand into all areas of sources and uses of funds for Montana's transportation system with the goal of restoring long-term sustainability of all aspects of Montana's transportation infrastructure.

Common Adjustments in all Programs

Three adjustments appear in nearly all programs and are summarized in the following figures to aid the legislature in seeing the combined impacts of the adjustments to all programs of the agency:

- Overtime and differential pay
- Equipment rental
- Training reductions

The following figure provides comparisons for all programs for the overtime and differential pay and the equipment rental adjustments against base expenditures. The adjustments are described separately below.

Overtime and Differential Pay

Adjustments to establish funding for overtime and differential pay are included in all programs. Funding is also added to fund salary related costs for benefits, insurance, and employer taxes. For the department these costs increase \$1.4 million over the doubled base of roughly \$10 million. The figure shows the requested amounts for the biennium and the doubled base expenditure to show biennium comparisons. For the biennium, \$11.4 million would fund overtime, differential pay, and per diem for department FTE funded in HB 2. Additional funding for overtime and differential pay is included in the rates for proprietary funded programs, such as the State Motor Pool and the Equipment Program.

Equipment Rental

The department operates a proprietary funded program to purchase and maintain equipment used exclusively by programs of the department. The Equipment Program manages the equipment items that support the functions of the department, such as snowplows and sanders, motor carrier services enforcement vehicles, and lawn and weed mowers. Programs fund the Equipment Program by paying for usage of the equipment. The Equipment Program has requested increases to the rates it charges. The adjustments shown under the Equipment Rental heading on the figure are requested to provide funding to pay the increases in the Equipment Program rates for the 2011 biennium. For the biennium, the equipment rental adjustment totals \$4.5 million for the department. A discussion of the requested equipment rental rates is contained in the proprietary discussion for the Equipment Program.

2011 Biennium Common Decision Packages Overtime and Differential Pay and Equipment Rental								
Program		Overtime	Differential Pay	Benefits	Per Diem	Biennium Total		Equipment Rental
01 - General Operations	DP 1002	\$85,930	\$1,170	\$13,066	\$0	\$100,166	DP 1001	\$5,376
	Base x 2	<u>106,732</u>	<u>184,384</u>				Base x 2	<u>65,766</u>
	Change	<u>(\$20,802)</u>	<u>(\$183,214)</u>				Growth	<u>8.2%</u>
02 - Construction	DP 0215	\$4,881,260	\$40,264	\$738,226	\$5,300	\$5,665,050	DP 0214	\$740,296
	Base x 2	<u>4,532,910</u>	<u>309,860</u>		<u>5,300</u>		Base x 2	<u>8,216,660</u>
	Change	<u>\$348,350</u>	<u>(\$269,596)</u>		<u>\$0</u>		Growth	<u>9.0%</u>
03 - Maintenance	DP 0301	\$3,935,986	\$567,384	\$675,508		\$5,178,878	DP 0302	\$3,676,205
	Base x 2	<u>3,935,986</u>	<u>606,670</u>				Base x 2	<u>44,976,638</u>
	Change	<u>\$0</u>	<u>(\$39,286)</u>				Growth	<u>8.2%</u>
22 - Motor Carrier Service	DP 2210	\$260,002	\$49,096	\$46,390		\$355,488	DP 2208	\$56,776
	Base x 2	<u>160,980</u>	<u>75,854</u>				Base x 2	<u>634,172</u>
	Change	<u>\$99,022</u>	<u>(\$26,758)</u>				Growth	<u>9.0%</u>
40 - Aeronautics	DP 4003				\$3,900	\$3,900		
	Base x 2				<u>3,900</u>			
	Change				<u>\$0</u>			
50 Rail, Transit, & Planning	DP 5003	\$2,258	\$48,332	\$7,588		\$58,178	DP 5002	\$25,864
	Base x 2	<u>2,258</u>	<u>48,332</u>				Base x 2	<u>316,422</u>
	Change	<u>\$0</u>	<u>\$0</u>				Growth	<u>8.2%</u>
Total for all programs						<u>\$11,361,660</u>		<u>\$4,504,517</u>

Training Reductions

The department has included budget adjustments that would cap the biennium funding for training costs in all programs in the department at \$1.0 million. This was one of several measures taken by the department to reduce funding from the highways state special revenue account due to previously identified fund concerns. The following figure shows the training reduction for all programs of the department for the 2011 biennium.

Training Program					
Program	Decision Package	FY 2010	FY 2011	2011 Biennium	
01 General Operations Program	DP 1301 Training Reducti	(\$8,600)	(\$8,600)	(\$17,200)	
02 Construction Program	DP 0216 Training Reducti	(119,924)	(119,924)	(239,848)	
03 Maintenance Program	DP 0303 Training Reducti	(30,628)	(30,628)	(61,256)	
40 Aeronautics Program	DP 4006 Training Reducti	(3,942)	(3,942)	(7,884)	
50 Rail, Transit, & Planning Divis	DP 5001 Training Reducti	(540)	(540)	(1,080)	
		<u>(\$163,634)</u>	<u>(\$163,634)</u>	<u>(\$327,268)</u>	

Supplemental Appropriations Description

The executive states that a \$20.0 million supplemental appropriation will be requested for the department to make contractor payments and capital outlays in the Construction Program. The supplemental appropriation would request

\$17.4 million, or 87 percent, in federal funding and \$2.6 million, or 13 percent, in state funding. State funds would come from the constitutionally restricted highways state special revenue account.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual narratives that follow.

Total Agency Funding 2011 Biennium Budget				
Agency Program	State Spec.	Fed Spec.	Grand Total	Total %
01 General Operations Program	\$ 48,842,903	\$ 3,131,766	\$ 51,974,669	4.67%
02 Construction Program	155,117,675	585,786,378	740,904,053	66.58%
03 Maintenance Program	230,180,311	15,109,834	245,290,145	22.04%
22 Motor Carrier Services Div.	18,580,281	6,384,896	24,965,177	2.24%
40 Aeronautics Program	3,717,385	284,539	4,001,924	0.36%
50 Rail, Transit, & Planning Division	8,065,296	37,521,876	45,587,172	4.10%
Grand Total	<u>\$ 464,503,851</u>	<u>\$ 648,219,289</u>	<u>\$ 1,112,723,140</u>	<u>100.00%</u>

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Department of Transportation					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<i><u>Direct Bearing on Agency Operations</u></i>					
A Governor declared emergency/disaster	10-3-312	General Fund	\$30,461	\$0	\$0
Debt service payments & issuing costs	17-7-502	SSR	875,690	12,956,696	12,954,496
		FSR	<u>11,877,906</u>	<u>4,053,350</u>	<u>4,049,588</u>
Total debt service payments & issuing costs			12,753,596	17,010,046	17,004,084
<i><u>Does Not Relate Directly to Agency Operations</u></i>					
Fuel taxes to local govt. for road work	15-70-101	SSR	16,766,000	16,766,000	16,766,000
Tribal reimbursements and DOR administrat	18-11-112	SSR	3,806,739	3,974,667	3,974,667

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	512,158,252	512,158,252	1,024,316,504	92.05%
Statewide PL Adjustments	0	0	0	0.00%	6,001,013	6,360,400	12,361,413	1.11%
Other PL Adjustments	0	0	0	0.00%	31,657,501	37,087,058	68,744,559	6.18%
New Proposals	0	0	0	0.00%	3,795,362	3,505,302	7,300,664	0.66%
Total Budget	\$0	\$0	\$0		\$553,612,128	\$559,111,012	\$1,112,723,140	

Language and Statutory Authority

The executive recommends the following language for the department:

"The department may adjust appropriations in the general operations, construction, maintenance, and transportation planning programs between state special revenue and federal special revenue funds if the total state special revenue authority for these programs is not increased by more than 10% of the total appropriations established by the legislature for each program."

"All federal special revenue appropriations in the department are biennial."

"All appropriations in the general operations, construction, maintenance, and transportation planning programs are biennial."

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions for the 2009 biennium, are authorized to continue and are appropriated in fiscal year 2010 and fiscal year 2011."

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	187.37	187.37	188.37	188.37	187.37	188.37	1.00	0.53%
Personal Services	11,519,695	12,917,898	13,026,656	13,074,113	24,437,593	26,100,769	1,663,176	6.81%
Operating Expenses	10,902,842	12,623,317	12,692,139	12,523,689	23,526,159	25,215,828	1,689,669	7.18%
Equipment & Intangible Assets	31,859	393,141	31,859	31,859	425,000	63,718	(361,282)	(85.01%)
Grants	297,177	649,444	297,177	297,177	946,621	594,354	(352,267)	(37.21%)
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	0	500	0	0	500	0	(500)	(100.00%)
Total Costs	\$22,751,573	\$26,584,300	\$26,047,831	\$25,926,838	\$49,335,873	\$51,974,669	\$2,638,796	5.35%
General Fund	0	0	0	0	0	0	0	n/a
State Special	21,045,984	24,970,490	24,482,263	24,360,640	46,016,474	48,842,903	2,826,429	6.14%
Federal Special	1,705,589	1,613,810	1,565,568	1,566,198	3,319,399	3,131,766	(187,633)	(5.65%)
Total Funds	\$22,751,573	\$26,584,300	\$26,047,831	\$25,926,838	\$49,335,873	\$51,974,669	\$2,638,796	5.35%

Program Description

The General Operations Program provides overall policy direction and management to the agency, administers motor fuel taxes, and provides administrative support services for the department, including general administration and management, accounting and budgeting, public affairs, information technology services, human resources activities, compliance review, and goods and services procurement.

Program Highlights

General Operations Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The division HB 2 budget would grow by \$2.6 million, or 5.4 percent, from the 2009 biennium to the 2011 biennium <ul style="list-style-type: none"> • Statewide present law adjustments account for most of the increase with about two thirds due to personal services and one third due to fixed costs • Computer system maintenance cost increases and system modifications would add \$457,500 • Credit card transaction fee increases would add \$137,000 • A funding shift to move 1.00 FTE from a statutory appropriation to HB 2 funding to administer tribal fuel tax refunds and agreements would add \$79,400 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Increases for a maintenance contract to administer and enforce motor carrier laws are caused by enhancements funded in prior years 	

Program Narrative

2009 Biennium Major Goals Monitored

No goals specific to this program were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

Human Resources Division

- Reduce work injuries by implementing a job safety analysis process to identify, analyze, and record potential safety and health hazards to reduce the risk of a workplace injury or illness
- Ensure a safe working environment for all work locations by increasing oversight, training, and consultation services to managers and employees
- Reduce the cost of insurance premiums by participating in defensive driving, property loss management, and early-return-to-work programs

LFD ISSUE

No Measurable Objectives Provided

The agency provided goals for the human resources organization but failed to provide corresponding objectives. Besides being required in statute, measurable objectives would allow the legislature to establish an appropriations policy for the division. Decision packages are included for this program that request that the legislature approve funding increases for occupational health and safety specialist travel costs. Identifying how the functions performed by these specialist contribute to attainment of the above goals and measuring the effectiveness toward the outcomes of reducing injuries, ensuring safe working environments, and reducing insurance costs would enable the legislature to evaluate the use of the funding at a later date. The legislature may wish to discuss development of measurable objectives with the division and how it would monitor the outcomes from the associated funding to determine if the funding was providing the intended outcomes.

Information Service Division

- Maintain existing application systems
 - Correct all department application bug fixes within 24 hours of problem identification

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
General Operations Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ -	-	\$ -	-	\$ -	-
01100 General Fund	-	-	-	-	-	-
02000 Total State Special Funds	21,045,984	92.5%	24,482,263	94.0%	24,360,640	94.0%
02213 Off Highway Vehicle Gas Tax	-	-	-	-	-	-
02328 Ohv Gas Tax - Con Ed	-	-	-	-	-	-
02329 Snowmobile Fuel Tax-Enforcemnt	-	-	-	-	-	-
02330 Snowmobile Fuel Tax-Con Ed	-	-	-	-	-	-
02349 Highway Non-Restricted Account	-	-	-	-	-	-
02407 Snowmobile Fuel Tax	-	-	-	-	-	-
02412 Motorboat Fuel Tax	-	-	-	-	-	-
02422 Highways Special Revenue	21,045,984	92.5%	24,482,263	94.0%	24,360,640	94.0%
02827 Aeronautics Division	-	-	-	-	-	-
03000 Total Federal Special Funds	1,705,589	7.5%	1,565,568	6.0%	1,566,198	6.0%
03407 Highway Trust - Sp Rev	1,705,589	7.5%	1,565,568	6.0%	1,566,198	6.0%
Grand Total	<u>\$ 22,751,573</u>	100.0%	<u>\$ 26,047,831</u>	100.0%	<u>\$ 25,926,838</u>	100.0%

The General Operations Program is funded from the highways state special revenue fund and federal special revenue. The highways state special revenue fund receives revenue primarily from motor fuel taxes, gross vehicle weight permit fees, and reimbursements for indirect costs associated with the federal-aid highway program via a Federal Highways Administration (FHWA) approved indirect cost plan. Federal funding is available for assistance for disadvantaged businesses, training, fuel tax evasion prevention efforts, and direct administrative expenses associated with the federal-aid highway program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	22,751,573	22,751,573	45,503,146	87.55%
Statewide PL Adjustments	0	0	0	0.00%	2,794,321	2,628,228	5,422,549	10.43%
Other PL Adjustments	0	0	0	0.00%	433,430	487,638	921,068	1.77%
New Proposals	0	0	0	0.00%	68,507	59,399	127,906	0.25%
Total Budget	\$0	\$0	\$0		\$26,047,831	\$25,926,838	\$51,974,669	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----					-----Fiscal 2011-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				1,956,439					2,005,433	
Vacancy Savings				(539,048)					(541,003)	
Inflation/Deflation				9,705					10,944	
Fixed Costs				1,367,225					1,152,854	
Total Statewide Present Law Adjustments				\$2,794,321					\$2,628,228	
DP 1001 - Equipment Rental	0.00	0	3,065	0	3,065	0.00	0	2,311	0	2,311
DP 1002 - Overtime/Differential	0.00	0	43,417	6,666	50,083	0.00	0	43,417	6,666	50,083
DP 1101 - Office Equipment Cost Reduction	0.00	0	(1,754)	0	(1,754)	0.00	0	(1,754)	0	(1,754)
DP 1301 - Training Reduction	0.00	0	(8,600)	0	(8,600)	0.00	0	(8,600)	0	(8,600)
DP 1302 - District Health & Safety Specialists	0.00	0	45,000	0	45,000	0.00	0	45,000	0	45,000
DP 1401 - Merchant Credit Card Fees	0.00	0	52,590	0	52,590	0.00	0	84,383	0	84,383
DP 1402 - Tribal Refund FTE	1.00	0	39,487	0	39,487	1.00	0	39,905	0	39,905
DP 1404 - Fuel Tax Evasion Travel	0.00	0	0	10,250	10,250	0.00	0	0	10,250	10,250
DP 1503 - Computer Services Contract	0.00	0	202,357	0	202,357	0.00	0	225,108	0	225,108
DP 1506 - IT Maintenance Costs	0.00	0	40,952	0	40,952	0.00	0	40,952	0	40,952
Total Other Present Law Adjustments				\$433,430	1.00	\$0	\$470,722	\$16,916	\$487,638	
Grand Total All Present Law Adjustments				\$3,227,751					\$3,115,866	

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- Market Rate
 - The General Operations Program follows the agency policy for market percent (to remain at 103 percent of the 2006 market survey or maintain internal equity within the department) with no exceptions identified
 - The statewide personal services adjustment represents salaries for the division at an estimated 101 percent of market relative to the 2008 executive branch market survey and prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature was 110 percent of market relative to the 2006 executive branch market survey
- Vacancy
 - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- Legislatively Applied Vacancy Savings
 - The division used carry forward authority or held vacant positions open as needed to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT

In terms of FTE-hours, the division experienced a 9.4 percent vacancy rate, with hours expended exceeding calculated hours available from authorized FTE. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 5.6 percent.

- Pay Changes

- Pay increases given to division staff were limited primarily to career ladder increases and the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature. The 0.6 percent was given to selected individuals to achieve the agency internal equity policy or who were below the target market ratio for their position. Career ladder pay increases were outside HB 13 and were funded with savings from vacancies and carry forward funds

**LFD
COMMENT**

Career ladder increases were given to positions that are covered under the division's career ladder progression plan. The division has 68 positions or 67.05 FTE in career ladder positions. Of these, 12 or 17.6 percent received career ladder increases in FY 2008.

Career ladder positions are in the following job groups:

- Computer systems analyst
- Computer support technician
- Lithographic press operator
- Auditor
- Purchasing agent

- Retirements

- The division anticipates 23 employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium. The agency was unable to determine the 2011 biennium unfunded compensated absence liability cost if these employees retired

DP 1001 - Equipment Rental - An increase of nearly \$5,400 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 1002 - Overtime/Differential - An increase of nearly \$100,200 combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$13,100 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 1101 - Office Equipment Cost Reduction - A reduction of \$3,500 state special revenue for the biennium is proposed to reduce funding to reflect the purchase of equipment in the base that will not be purchased in the 2011 biennium. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 1301 - Training Reduction - A reduction of \$17,200 state special revenue for the biennium is proposed to reduce funding for training. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 1302 - District Health & Safety Specialists - An increase of \$90,000 state special revenue for the biennium is requested to fund occupational health and safety specialist travel costs that were not expended in the base because they were assigned to each district office in May of the base year. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

According to the department, the travel costs will be ultimately funded with the early-return-to-work rebates that the department receives to offset workers' compensation insurance premiums. The rebate will be used because the department assumes that observations and recommendations made by the specialists would likely result in reductions of work injuries and vehicle accidents, as well as fewer instances of property damage and loss. In turn, the department anticipates lower insurance premiums, an increase in production due to less downtime and missed work shifts, and lower maintenance and repair costs associated with preventable vehicle and property damage. Past early-return-to-work rebates for the department have grown from \$115,408 in FY 2003 to \$273,065 in FY 2008.

DP 1401 - Merchant Credit Card Fees - An increase of \$137,000 state special revenue for the biennium is requested to pay rising merchant credit card fees that result as more permits, licenses and other department services are paid with credit cards. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 1402 - Tribal Refund FTE - An increase of \$79,400 state special revenue for the biennium is requested to fund 1.00 FTE. A recent Legislative Financial Compliance Audit recommended that MDT charge costs of administering the motor fuels tax under tribal agreements to the tribal motor fuel administration account in accordance with state law. This request is to include the 1.00 FTE for the statutory administrative assistant position in the state appropriation bill (HB 2) at a cost of \$79,392 in highway state special revenue for the biennium.

DP 1404 - Fuel Tax Evasion Travel - An increase of \$20,500 federal special revenue for the biennium is requested for out-of-state travel and lodging costs associated with fuel tax evasion training. Funding is from a federal fuel tax evasion grant.

DP 1503 - Computer Services Contract - An increase of \$457,500 state special revenue for the biennium is requested for a scheduled increase in the maintenance contract with Affiliated Computer Services (ACS) and enhancements to the various permitting, registration, and licensing systems offered by ACS. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
ISSUE****Enhancements Drive up Maintenance Costs**

The since the 2005 legislative session, the legislature has appropriated funds for both maintenance contract costs and enhancements of the ACS computer system. As enhancements have been made, the maintenance contract costs have risen. The following figure shows how the maintenance contract costs have risen after enhancements have been made. Maintenance contract costs become an annual operating for the system.

Funding for Affiliated Computer Services (ACS)				
Biennium	Maintenance Contract			Enhancements (2)
	Base (1)	First Year Adjustments	Second Year Adjustments	
2007 (appropriated)	\$770,000	\$0	\$0	\$465,662
2009 (appropriated)	770,000	34,449	56,151	400,000
2011 (proposed)	804,449	171,032	193,783	62,650
2013 (forecast)	975,481			

Note 1: Assumes first year appropriation adjustments are expended as appropriated
Note 2: 2007 biennium appropriations for enhancements were one time only

The department uses ACS to administer and enforce state and federal commercial motor carrier laws and regulations and administer interstate motor carrier registration and motor fuel tax agreements. The department has previously stated that enhancements are made in order to further the productivity of department employees, provide quicker services to the citizens of Montana, especially commercial truckers, and to continue to meet legislative and best practice requirements.

Since enhancements to the system are a significant factor for increases in annual maintenance contract costs, the legislature may want to have the department quantify how the benefits gained from the enhancements provide more value than the resultant costs to provide the benefits. The legislature may wish to direct the agency to provide specific, measurable, accountable, realistic, and time bound measures (SMART) when comparing the costs to the benefits.

DP 1506 - IT Maintenance Costs - An increase of \$82,000 state special revenue for the biennium is requested to meet rising costs to maintain and repair printers and computers, and to purchase software licenses to meet department users' needs. Of the request, \$16,000 is for a maintenance agreement for new automated work paper software used by the unit responsible for department internal auditing. State special revenue funding is entirely from the restricted highways state special revenue account.

New Proposals

-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Management Program Allocat										
01	0.00	0	68,507	0	68,507	0.00	0	59,399	0	59,399
Total	0.00	\$0	\$68,507	\$0	\$68,507	0.00	\$0	\$59,399	\$0	\$59,399

DP 6101 - Fixed Cost Workers Comp Management Program Allocat - The Workers' Compensation Management program at the Department of Administration was funded by the 2009 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	974.32	974.32	974.32	974.32	974.32	974.32	0.00	0.00%
Personal Services	63,449,027	67,682,098	66,559,644	66,780,077	131,131,125	133,339,721	2,208,596	1.68%
Operating Expenses	274,800,392	289,188,043	281,263,206	290,250,578	563,988,435	571,513,784	7,525,349	1.33%
Equipment & Intangible Assets	1,015,008	1,040,260	1,015,008	1,015,008	2,055,268	2,030,016	(25,252)	(1.23%)
Capital Outlay	15,822,618	12,765,865	15,822,618	15,822,618	28,588,483	31,645,236	3,056,753	10.69%
Grants	1,187,648	372,010	1,187,648	1,187,648	1,559,658	2,375,296	815,638	52.30%
Total Costs	\$356,274,693	\$371,048,276	\$365,848,124	\$375,055,929	\$727,322,969	\$740,904,053	\$13,581,084	1.87%
State Special	81,389,398	93,623,783	77,158,163	77,959,512	175,013,181	155,117,675	(19,895,506)	(11.37%)
Federal Special	274,885,295	277,424,493	288,689,961	297,096,417	552,309,788	585,786,378	33,476,590	6.06%
Total Funds	\$356,274,693	\$371,048,276	\$365,848,124	\$375,055,929	\$727,322,969	\$740,904,053	\$13,581,084	1.87%

Program Description

The Construction Program is responsible for construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. Program responsibilities include such tasks as project designs, accessing environmental issues, writing documents, obtaining permits, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is responsible for the documentation, inspection, and testing of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work is approved. The program also provides traffic improvement and educational programs to promote public safety, health, and welfare.

Program Highlights

Construction Program Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The division HB 2 budget would grow by \$13.6 million, or 1.9 percent, from the 2009 biennium to the 2011 biennium <ul style="list-style-type: none"> • Contractor payments for the federal-aid construction program account for the largest increase and are at the federal FY 2008 funding levels and corresponding 2007 tentative construction plan • The state funded construction program is moved from this program to the Maintenance Program for a \$7.7 million state special revenue reduction • \$1.1 million state special revenue reductions are due to base funding that will not be needed this biennium 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The tentative construction plan is being updated for federal FY 2009 funding and will change the budget request just prior to the 2009 Legislature 	

Program Narrative

2009 Biennium Major Goals Monitored

No goals specific to this program were monitored during the 2009 biennium.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

- To survey, design, acquire the right-of-way, and construct safe, cost effective highway improvement projects in order to develop and maintain a cost effective, efficient, and safe transportation system
 - 85 percent of projects planned for the fiscal year are ready for contract
 - Maintain statewide average construction engineering costs under 10 percent of total contract costs
 - Maintain statewide final costs under 7 percent above award amount

LFD ISSUE

Objectives Do Not Address Outcomes

Although the objectives provided provide measures to monitor outputs involved in the process of delivering construction projects, the objectives provided would be of little use to the legislature in establishing appropriations policies and monitoring the effectiveness of the program in achieving the goal. The measures in these objectives could be used to evaluate how efficient the program is in performing its design work, but can not be used to measure how effective these activities are in achieving the intended outcomes. Doing something well doesn't necessarily translate to achieving the intended outcome, which in this case is to maintain a cost effective, efficient, and safe transportation system.

The legislature may want to discuss with the department ways it could strengthen the objectives to measure outcomes that would be observable by the traveling public, such as improvements in the condition and safety of Montana's highways.

Estimating Contractor Payment Amounts

Several present law adjustments for the Construction Program are based on existing construction contracts and future planned construction activity, construction contract bid letting dates, and estimates of staff resource needs to support the planned construction contracts during the 2011 biennium.

Based on planned construction activities, the department uses several management systems to estimate resource usage and payout schedules on highway construction projects. Each year after receiving updated federal-aid highway construction apportionment levels from the Federal Highways Administration, the department updates and balances the projects and funding in the highway construction plan, referred to as the tentative construction plan (TCP). The TCP indicates when the various highway construction projects will be let and the type of work to be completed. This construction contract information is used in the Project Cost Scheduling (PCS) system, one of many computerized management systems of the department, to estimate when and at what amounts actual contractor payments will be made. The estimates from these management systems form the basis for the contractor payments budget requests in both the federal-aid and 100 percent state funded construction programs. The management system estimates also form the basis for determining staff resources needed to support the planned construction contracts and activities for the biennium.

The last updated and balanced TCP was prepared at the end of 2007 and was used to develop the budget requests that are presented in the Legislative Budget Analysis 2011 Biennium. At the time of the budget analysis, the department was in the process, but had not completed, the 2008 update to the TCP for updated federal FY 2009 apportionment estimates.

**LFD
ISSUE**

Update to the Highway Construction Plan

The budget request DP 210 in the Construction Program, which requests funding for contractor payments in the federal-aid, was built based on the 2007 TCP update. In keeping with past practice, this decision package will likely be revised and resubmitted by the executive prior to being heard by the Natural Resources and Transportation Joint Appropriation Subcommittee of the 2009 Legislature. The revised request will be based on the 2008 TCP update.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table							
Construction Program							
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000	Total State Special Funds	\$ 81,389,398	22.8%	\$ 77,158,163	21.1%	\$ 77,959,512	20.8%
	02422 Highways Special Revenue	81,389,398	22.8%	77,158,163	21.1%	77,959,512	20.8%
	02799 Highway 93 Bond Proceeds	-	-	-	-	-	-
03000	Total Federal Special Funds	274,885,295	77.2%	288,689,961	78.9%	297,096,417	79.2%
	03407 Highway Trust - Sp Rev	269,779,399	75.7%	288,689,961	78.9%	297,096,417	79.2%
	03828 Traffic Safety	5,105,896	1.4%	-	-	-	-
Grand Total		<u>\$ 356,274,693</u>	100.0%	<u>\$ 365,848,124</u>	100.0%	<u>\$ 375,055,929</u>	100.0%

Costs eligible for reimbursement under the federal-aid construction program are funded with highways state special revenue funds and federal special revenue funds apportioned to Montana and distributed by the U.S. Department of Transportation. Construction design, construction, and construction management costs, as well as direct administrative costs for construction activities, are generally eligible for federal reimbursement. The state match requirement is based on a sliding scale match, which is currently 87 percent federal with a 13 percent state match for most direct construction related costs. The program also provides a maintenance-of-effort highway construction program funded entirely with highways state special revenue. The primary sources of revenue for the highways state special revenue funds are highway-user fees derived from motor fuel taxes and gross vehicle weight fees. Traffic safety functions are generally funded 100 percent with National Highway Traffic Safety Administration grant funds. The exception is that a 50 percent state special revenue match is required for roughly 1 percent of the administrative costs.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	356,274,693	356,274,693	712,549,386	96.17%
Statewide PL Adjustments	0	0	0	0.00%	344,336	573,369	917,705	0.12%
Other PL Adjustments	0	0	0	0.00%	9,229,095	18,207,867	27,436,962	3.70%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$365,848,124	\$375,055,929	\$740,904,053	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					2,933,360					3,163,012
Vacancy Savings					(2,655,268)					(2,664,487)
Inflation/Deflation					51,968					60,135
Fixed Costs					14,276					14,709
Total Statewide Present Law Adjustments					\$344,336					\$573,369
DP 210 - Contractor Payments/Federal Aid	0.00	0	1,352,846	9,085,782	10,438,628	0.00	0	2,532,206	17,006,422	19,538,628
DP 211 - Contractor Payments/State Funded Construction	0.00	0	(3,826,896)	0	(3,826,896)	0.00	0	(3,826,896)	0	(3,826,896)
DP 214 - Equipment Rental	0.00	0	219,042	211,720	430,762	0.00	0	157,398	152,136	309,534
DP 215 - OT/Differential	0.00	0	1,471,780	1,360,745	2,832,525	0.00	0	1,471,780	1,360,745	2,832,525
DP 216 - Training Reduction	0.00	0	(119,924)	0	(119,924)	0.00	0	(119,924)	0	(119,924)
DP 222 - Westlaw Internet License	0.00	0	10,000	0	10,000	0.00	0	10,000	0	10,000
DP 223 - Program Reductions	0.00	0	(536,000)	0	(536,000)	0.00	0	(536,000)	0	(536,000)
Total Other Present Law Adjustments	0.00	\$0	(\$1,429,152)	\$10,658,247	\$9,229,095	0.00	\$0	(\$311,436)	\$18,519,303	\$18,207,867
Grand Total All Present Law Adjustments					\$9,573,431					\$18,781,236

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- Market Rate
 - The Construction Program follows the agency policy for market percent (to remain at 103 percent of the 2006 market survey or maintain internal equity within the department) with no exceptions identified
 - The statewide personal services adjustment represents salaries for the division at an estimated 96 percent of market relative to the 2008 executive branch market survey and prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature was 109 percent of market relative to the 2006 executive branch market survey
- Vacancy
 - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- Legislatively Applied Vacancy Savings
 - The division used natural turnover and held vacant positions open as needed to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT

In terms of FTE-hours, the division experienced a 4.9 percent vacancy rate, with hours expended exceeding calculated hours available from authorized FTE. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 7.2 percent.

- Pay Changes

- Pay increases given to division staff were primarily for career ladder increases, and the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature. The 0.6 percent was given to selected individuals to achieve the agency internal equity policy or who were below the target market ratio for their position. Pay increases for discretionary market adjustments were given to move employees in line with the agency target market ratio and were funded using the 0.6 percent flexible component of HB 13. Pay increases for career ladder increases were outside HB 13 and were funded with savings from vacancies

**LFD
COMMENT**

Career ladder increases were given to positions covered under the division's career ladder progression plan. The division has 302 positions or 504.43 FTE in career ladder positions. Of these, 24 or 8 percent received career ladder increases in FY 2008.

Career ladder positions are in the following job groups:

- Civil engineer specialist
- Civil engineering technician
- Engineering contract specialist
- Materials lab inspector
- Materials inspection aide
- Materials inspection technician
- Designer
- Design technician
- Right-of-way specialist
- Right-of-way technician

- Retirements

- The division anticipates 146 employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium. The department was unable to determine what the unfunded compensated absence liability cost would be if these employees retired in the 2011 biennium

DP 210 - Contractor Payments/Federal Aid - An increase of nearly \$30.0 million combined state special and federal special revenue for the biennium is requested to fund payments to highway construction contractors based on department estimates of federal-aid funding and the corresponding highway construction plan last updated at the end of 2007. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

This adjustment may change before the legislature hears the department budget request because of timing of the update to the Tentative Construction Plan. For further discussion of construction planning see the narrative and LFD issue titled, Update to the Highway Construction Plan in the Program Narrative section for this program.

DP 211 - Contractor Payments/State Funded Construction - A reduction of nearly \$7.7 million state special revenue for the biennium is proposed to transfer the state funded construction program to the Maintenance Division. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

This request would remove all base funding for the state funded construction program for this program. DP 318 - State Funded Construction - Program Transfer in the Maintenance Program increases the funding in that program by this amount and additional \$12.3 million to increase the state funded construction program to \$10 million per year.

DP 214 - Equipment Rental - An increase of \$740,000 combined state special and federal special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 215 - OT/Differential - An increase of nearly \$5.7 million combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$738,200 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 216 - Training Reduction - A reduction of nearly \$240,000 state special revenue for the biennium is proposed to reduce funding for training. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 222 - Westlaw Internet License - An increase of \$20,000 state special revenue for the biennium is requested to purchase the license to access the Westlaw Internet site for legal research. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 223 - Program Reductions - A reductions of nearly \$1.1 million state special revenue for the biennium is proposed to reduce state special revenue because the base includes costs for the following purposes that will not occur in the 2011 biennium:

- Site Manager program
- City-wide traffic signal upgrades

State special revenue funding is entirely from the restricted highways state special revenue account.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	766.67	766.67	766.67	766.67	766.67	766.67	0.00	0.00%
Personal Services	43,652,415	49,498,900	47,892,652	48,111,843	93,151,315	96,004,495	2,853,180	3.06%
Operating Expenses	57,945,127	66,827,926	73,422,207	72,948,052	124,773,053	146,370,259	21,597,206	17.31%
Equipment & Intangible Assets	795,278	250,068	1,773,813	827,278	1,045,346	2,601,091	1,555,745	148.83%
Capital Outlay	157,150	105,064	157,150	157,150	262,214	314,300	52,086	19.86%
Total Costs	\$102,549,970	\$116,681,958	\$123,245,822	\$122,044,323	\$219,231,928	\$245,290,145	\$26,058,217	11.89%
State Special	96,436,870	108,109,398	115,311,283	114,869,028	204,546,268	230,180,311	25,634,043	12.53%
Federal Special	6,113,100	8,572,560	7,934,539	7,175,295	14,685,660	15,109,834	424,174	2.89%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$102,549,970	\$116,681,958	\$123,245,822	\$122,044,323	\$219,231,928	\$245,290,145	\$26,058,217	11.89%

Program Description

The Maintenance Program is responsible for the repair, maintenance and preservation of approximately 25,000 lane miles of roadways. Activities include but are not limited to: winter maintenance, reactive and preventive pavement preservation, pavement marking, signing, roadway striping, noxious weed control, traveler information, and other necessary roadway and roadside repairs and maintenance.

Program Highlights

Maintenance Program Major Budget Highlights	
♦	<p>The division HB 2 budget would grow by \$26.1 million, or 11.9 percent, from the 2009 biennium to the 2011 biennium</p> <ul style="list-style-type: none"> The state funded construction program is moved to this program from the Maintenance Program and is increased by \$12.3 million over the biennium to \$10 million per year Increasing the pavement marking program to typical annual levels would add \$3.8 million Cost increases for liquid deicer solution would add \$1.2 million Five variable message signs would add \$947,000 to advise the traveling public of winter road and construction conditions at two Interstate locations

Program Narrative*2009 Biennium Major Goals Monitored*

No goals specific to this program were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the

interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

- Maintain safe winter driving conditions through snow removal and application of abrasive materials and anti-icing chemicals to reduce roadway hazards and slippery surface conditions
 - Ensure the Interstate system has bare pavement within 24 hours of a typical winter storm event
- 85 percent of roads under department jurisdiction will meet reflective standard for striping by July 1 annually

LFD COMMENT

The key goals identified for the program represent significant policy areas for the department in their contribution to promoting a safe highway system for the traveling public. Both goals either are or have objectives that are measurable, specific, and time bound. Both goals are funded with both base funding and include requests for adjustments in the executive budget. The winter driving goal is supported by present law DP 307 - US 93 Ravalli-Ronan Changes and DP 312 - Winter Maintenance - Increased Cost of Chemical. The striping goal is supported by present law DP 314 - Pavement Marking Program.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Maintenance Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000 Total State Special Funds	\$ 96,436,870	94.0%	\$ 115,311,283	93.6%	\$ 114,869,028	94.1%
02422 Highways Special Revenue	96,436,870	94.0%	115,311,283	93.6%	114,869,028	94.1%
03000 Total Federal Special Funds	6,113,100	6.0%	7,934,539	6.4%	7,175,295	5.9%
03407 Highway Trust - Sp Rev	6,113,100	6.0%	7,934,539	6.4%	7,175,295	5.9%
06000 Total Proprietary Funds	-	-	-	-	-	-
06508 Highway Equipment - Int Svc.	-	-	-	-	-	-
Grand Total	<u>\$ 102,549,970</u>	100.0%	<u>\$ 123,245,822</u>	100.0%	<u>\$ 122,044,323</u>	100.0%

The Maintenance Program is primarily funded with the state special revenue. All state special revenue is from the constitutionally restricted highways state special revenue account. Federal special revenue also funds qualifying highway maintenance activities determined by the Federal Highway Administration to extend the life of the highway.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	102,549,970	102,549,970	205,099,940	83.62%
Statewide PL Adjustments	0	0	0	0.00%	1,877,399	2,121,992	3,999,391	1.63%
Other PL Adjustments	0	0	0	0.00%	18,818,453	17,372,361	36,190,814	14.75%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$123,245,822	\$122,044,323	\$245,290,145	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----					-----Fiscal 2011-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					3,538,448					3,766,801
Vacancy Savings					(1,887,650)					(1,896,812)
Inflation/Deflation					226,601					252,003
Total Statewide Present Law Adjustments					\$1,877,399					\$2,121,992
DP 301 - OT/Differential	0.00	0	2,589,439	0	2,589,439	0.00	0	2,589,439	0	2,589,439
DP 302 - Equipment Rental	0.00	0	2,095,978	0	2,095,978	0.00	0	1,580,227	0	1,580,227
DP 303 - Training Reduction	0.00	0	(30,628)	0	(30,628)	0.00	0	(30,628)	0	(30,628)
DP 306 - Variable Message Signs	0.00	0	189,307	757,228	946,535	0.00	0	0	0	0
DP 307 - US 93 Ravalli-Ronan Changes	0.00	0	167,221	0	167,221	0.00	0	167,889	0	167,889
DP 308 - Rest Areas - Maintenance & Supplies	0.00	0	153,075	0	153,075	0.00	0	168,061	0	168,061
DP 310 - City Contract Increases	0.00	0	113,018	0	113,018	0.00	0	113,558	0	113,558
DP 311 - Mobile & Portable Handheld Radios	0.00	0	97,663	0	97,663	0.00	0	97,663	0	97,663
DP 312 - Winter Maintenance - Increased Cost of Chemical	0.00	0	78,000	522,000	600,000	0.00	0	78,000	522,000	600,000
DP 314 - Pavement Marking Program	0.00	0	246,232	1,647,859	1,894,091	0.00	0	246,232	1,647,859	1,894,091
DP 316 - Noxious Weed Program	0.00	0	192,061	0	192,061	0.00	0	192,061	0	192,061
DP 318 - State Funded Construction - Program Transfer	0.00	0	10,000,000	0	10,000,000	0.00	0	10,000,000	0	10,000,000
Total Other Present Law Adjustments	0.00	\$0	\$15,891,366	\$2,927,087	\$18,818,453	0.00	\$0	\$15,202,502	\$2,169,859	\$17,372,361
Grand Total All Present Law Adjustments					\$20,695,852					\$19,494,353

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- Market Rate
 - The Maintenance Program follows the agency policy for market percent (to remain at 103 percent of the 2006 market survey or maintain internal equity within the department) with no exceptions identified
 - The statewide personal services adjustment represents salaries for the division at an estimated 96 percent of market relative to the 2008 executive branch market survey and prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature was 111 percent of market relative to the 2006 executive branch market survey
- Vacancy
 - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention. However, it stated that factors that impact vacancies for blue collar positions in the division are largely geographic due to many remote or high cost areas of the state covered by the division. The division used the flexible 0.6 percent portion of HB 13 to increase blue collar salaries
- Legislatively Applied Vacancy Savings

- The division used natural vacancies to achieve the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced an 8.0 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 8.0 percent.

- Pay Changes

- Pay increases given to division staff were limited primarily to career ladder and blue collar increases and the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature. The 3.6 percent increases of HB 13 were given uniformly to blue collar workers as a condition of their negotiated contract. Pay increases for career ladder increases were outside HB 13 and were funded with savings from vacancies

**LFD
COMMENT**

Career ladder increases were given to blue collar workers in maintenance technician positions under the division's career ladder progression plan. The division has 426 positions or 483.63 FTE in career ladder positions. Of these 51 or 10.5 percent received career ladder increases in FY 2008.

- Retirements

- The division anticipates 95 employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium. The agency was unable to determine the 2011 biennium unfunded compensated absence liability cost if these employees retired

DP 301 - OT/Differential - An increase of nearly \$5.2 million state special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$675,500 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 302 - Equipment Rental - An increase of \$3.7 million state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 303 - Training Reduction - A reduction of nearly \$61,300 state special revenue for the biennium is proposed to reduce funding for training. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 306 - Variable Message Signs - An increase of \$947,000 combined state special and federal special revenue for the biennium is requested. This request would add five variable message signs (VMS) and four support structures to address traveler notification needs at Lookout Pass and Rocker. Variable Message Signs would be used to alert travelers about various road and weather conditions such as construction work, winter maintenance alerts, road closures and detours. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 307 - US 93 Ravalli-Ronan Changes - An increase of \$335,000 state special revenue for the biennium is requested to fund utility and maintenance costs for 371 new luminaries and seven traffic signals added in the Ravalli-Ronan area during new construction on Highway 93. Funding would also buy additional deicer solution to address additional needs in the area. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 308 - Rest Areas - Maintenance & Supplies - An increase of \$321,000 state special revenue for the biennium is requested to address increased costs related to the maintenance of several rest areas. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**
Factors for Cost Increases

According to the agency, the costs associated with the multiple rest areas are as follows:

- Dena Mora rest area (\$33,300) is for caretaker per diem increases and cost related to increased maintenance levels associated with harsh climate, remote location, and additional weather maintenance due to the high snowfalls
- Emigrant and Reynolds Pass rest area (\$12,108) are both due to be rebid and expectations are that costs will increase by 10 percent
- Anaconda rest area (\$174,836) was opened late in FY 2008, so the base amount does not reflect full year costs
- Gold Creek rest area and rest stop (\$32,000) will be converted to a truck parking area and two restroom vaults in each direction will be added

Various other rest areas (\$68,892) have increased costs of caretaker and janitorial services due to contractual cost increases and expected increases when some of these rest areas are rebid.

DP 310 - City Contract Increases - An increase of \$227,000 state special revenue for the biennium is requested to address cost increases for maintenance contracts in which cities perform routine maintenance on state roadways that are within city limits. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**
Maintenance Contracts

The department has maintenance service contracts with Missoula and Billings to maintain state highways that are the financial responsibility of the state and run through those cities. Contracts with these two cities call for a 2.3 percent inflation adjustment. The contracted duties are similar to activities performed by the department, such as snow removal and ice control, roadway patching and repairs, storm drain maintenance and repairs, landscape maintenance, street cleaning, review and initiation of encroachment permits, interchange and park green area maintenance, weed and tree control, and cross walk and roadway painting. The request also includes \$23,615 for increased costs for signal and sign maintenance in Great Falls and Helena.

DP 311 - Mobile & Portable Handheld Radios - An increase of \$195,000 state special revenue for the biennium is requested to purchase 25 mobile radios and 25 handheld radios for use with the Interoperable Montana Radio System. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 312 - Winter Maintenance - Increased Cost of Chemical - An increase of \$1.2 million combined state special and federal special revenue for the biennium is requested to address increased costs of chemical deicer. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 314 - Pavement Marking Program - An increase of \$3.8 million combined state special and federal special revenue for the biennium is requested to adjust funding for the pavement marking program to annual planned levels. Due to weather impacts, projects planned for the base were delayed so the base does not reflect a full plan year of pavement marking program expenditures. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 316 - Noxious Weed Program - An increase of \$384,000 state special revenue for the biennium is requested to adjust funding for the noxious weed program to annual planned levels. Due to weather impacts, herbicide applications were not

made as planned so the base does not reflect a full plan year of noxious weed program expenditures. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 318 - State Funded Construction - Program Transfer - An increase of \$20.0 million state special revenue for the biennium is requested to move the state funded construction program from the Construction Program to the Maintenance Program and increase it by \$12.3 million over the biennium to a \$10.0 million annual funding level. Average maintenance of effort to maintain a favorable federal participation rate of 87 percent for the federal-aid construction program is \$10.0 million of fully state funded construction for Montana. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT****Partial Offsetting Reduction in the Construction Program**

This request is related to a reduction in the Construction Program in decision package DP 0211 – Contractor Payments/State Funded Construction that reduces the budget for that program to eliminate base expenditures for the state funded construction program.

Proprietary Program Description

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

State Motor Pool Internal Service - Proposed Budget Table					
Account Name	Actual Base	FY 2010	FY 2010	FY 2011	FY 2011
		Adjustments	Total	Adjustments	Total
FTE	6.00	0.00	6.00	0.00	6.00
61000 Personal Services	\$335,108	\$8,901	\$344,009	\$11,132	\$346,240
62000 Operating Expenses	2,852,819	410,063	3,262,882	534,589	3,387,408
63000 Equipment & Intangible Assets	2,333,918	485,751	2,819,669	565,751	2,899,669
67000 Benefits & Claims	0	0	0	0	0
69000 Debt Service	<u>388,388</u>	<u>13,352</u>	<u>401,740</u>	<u>13,352</u>	<u>401,740</u>
Total Costs	<u>\$5,910,233</u>	<u>\$918,067</u>	<u>\$6,828,300</u>	<u>\$1,124,824</u>	<u>\$7,035,057</u>

Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees who conduct official state business. The State Motor Pool has two basic components: 1) the daily rental fleet; and 2) the out-stationed lease fleet. The daily rental program operates out of the Helena headquarters facility and provides vehicles for short-term use. The leasing program provides vehicles for extended assignment (biennial lease) to agencies statewide.

Program Highlights

State Motor Pool Major Budget Highlights	
◆	Rate increases would result in fixed cost increases of 19.1 percent in FY 2010 and 20.8 percent in FY 2011 for motor pool cost items in budgets of State Motor Pool user agencies
◆	Speculation of high petroleum prices are key contributor to growth in rates

Funding

State Motor Pool is funded entirely with internal service type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in HB 2 tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be charged in the biennium. The proprietary funded program is discussed below in the Proprietary Rates section.

The following table shows estimated funding sources for payments made by users of the State Motor Pool for the base and the 2011 biennium.

Estimated Funding for Payments to the State Motor Pool (\$ Millions)			
		FY 2010	FY 2011
Item	Base	est.	est.
General Fund	\$2.37	\$3.36	\$3.45
State Special Revenue	2.10	2.98	3.06
Federal Special Revenue	1.08	1.82	1.87
Proprietary	0.07	0.10	0.10
Other	<u>0.08</u>	<u>0.11</u>	<u>0.11</u>
Total Payments	<u>\$5.70</u>	<u>\$8.37</u>	<u>\$8.59</u>

Program Narrative

Expenses

Base year program costs were driven by the following cost areas:

- Supplies (\$2,071,327), made up mostly by gasoline purchases
- Equipment purchases (\$2,333,918), for the purchase of new and replacement vehicles for the fleet
- Personal services (\$337,428) supported costs for 6.00 FTE
- Depreciation (\$2,518,224), which is a non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence
- Repair and maintenance costs (\$295,873), which were dominated by tires and tubes, equipment repair parts, maintenance service contracts for remote areas outside of Helena, oil and oil filters, grease and lubricants

Many of the costs that dominate program expenditures are strongly influenced by petroleum costs and when petroleum costs are rising, as they have for the past several years, result in increased costs for the program to meet customer service levels.

Revenues

Revenues of the program are derived from fees charged to all state agencies that use the program. Fees are charged for both possession and use of equipment using a dual rate structure that collects fixed costs under a possession charge and variable costs under a usage charge. Fixed costs are for expense items such as insurance, depreciation, and indirect costs.

The figure for fund 06506 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06506	Motor Pool Internal	54010	Transportation	State Motor Pool		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			337,428	344,691	344,009	346,240
Other Operating Expenses			<u>5,666,694</u>	<u>5,214,712</u>	<u>6,624,740</u>	<u>6,829,131</u>
Total Operating Expenses			\$6,004,122	\$5,559,403	\$6,968,749	\$7,175,371
Operating Revenues:						
Revenue From Fees			5,903,943	6,225,206	8,384,829	8,591,451
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Other Operating Revenues			<u>1,683</u>	<u>50,000</u>	<u>20,000</u>	<u>20,000</u>
Total Operating Revenue			\$5,905,626	\$6,275,206	\$8,404,829	\$8,611,451
Operating Gain (Loss)			(98,496)	715,803	1,436,080	1,436,080
Nonoperating Sources (Uses) (Note 1)			(45,259)	30,000	0	0
Net Assets as of July 1 (Beginning of Fiscal Y			\$1,193,921	\$1,050,166	\$1,795,969	\$3,232,049
Net Increase (Decrease) of Net Assets			(143,755)	745,803	1,436,080	1,436,080
Prior Period Adjustments			0	0	0	0
Cumulative Effect of Account Change			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets as of June 30 (End of Fiscal Year)			<u>\$1,050,166</u>	<u>\$1,795,969</u>	<u>\$3,232,049</u>	<u>\$4,668,129</u>
Note 1 - Includes loss on sale of asset (\$68,559) and nonoperating revenue (\$23,300)						

Operating gains shown for fiscal years 2010 and 2011 are planned into the operation of this program to fund repayment of general fund loans received in FY 2008 to finance gasoline purchases when gasoline prices were higher than the approved rates for the 2009 biennium would recover. The program has a \$3.3 million general fund loan that isn't reflected on the fund table.

Present Law

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

State Motor Pool - Present Law Adjustments		
DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	\$398,626	\$461,134
DP 0701 OT/Differential	1,141	1,141
DP 0705 Increased Repair & Maintenance Cos	17,769	17,769
DP 0706 EVMS Maintenance Contract Increas	1,227	1,227
DP 0707 Vehicle Purchases	<u>499,103</u>	<u>643,379</u>
Total Present Law Adjustments	<u>\$917,866</u>	<u>\$1,124,650</u>

DP 0701 - OT/Differential - An increase of \$2,300 proprietary funds for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$300 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. This increase would have no impact on the rates as it only requests continuation of actual base costs on zero based items of the budget.

DP 0705 - Increased Repair & Maintenance Costs – An increase of \$35,500 proprietary funds for the biennium is requested to address increased costs of motor oil and tires. The impact of this request is an estimated \$0.00113 per mile on the usage rates in each year of the biennium.

DP 0706 - EVMS Maintenance Contract Increase - An increase of \$2,454 proprietary funds for the biennium is requested to fund a 2.5 percent increase in the maintenance contract with Agile Assets for the Equipment and Vehicle Management System (EVMS). This request addresses half of the increases with the other half being funded in the Equipment Program. This request would have a negligible impact on the assigned time rates for the biennium.

DP 0707 - Vehicle Purchases - An increase of \$1.1 million proprietary funds for the biennium is requested to address costs to purchase new and replacement vehicles for the fleet and has three components:

- An increase in the quantity of vehicles purchased
- An increase in the cost per vehicle
- Fuel to operate the additional vehicles (\$64,300 in FY 2011)

This request would have the following estimated impacts on the rates for the 2011 biennium:

- \$0.0046 per hour increase in the assigned rates in each year of the biennium
- \$0.0041 per mile increase on the mileage usage rate in FY 2011

New Proposals

State Motor Pool Internal Services Program - New Proposals		
DP Name	FY 2010 FY 2011	
DP 0704 Fixed Cost Workers Comp Mgmt Program Allocat	\$201	\$174

DP 0704 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2009 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process. This request would have a negligible impact on the assigned time rates for the biennium.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

State Motor Pool - Rates								
		Actual FY 2008	Actual FY 2008	Actual FY 2009	Actual FY 2009	Budgeted FY 2010	Budgeted FY 2010	Budgeted FY 2011
Rental Rate Fees		Assigned Rate	Usage Rate	Assigned Rate	Usage Rate	Assigned Rate	Usage Rate	Assigned Rate
Class 02	Small Utilities	1.547	0.158	1.637	0.160	2.543	0.229	2.428
Class 03	Hybrid SUV	1.948	0.200	2.038	0.202	1.690	0.167	2.323
Class 04	Large Utilities	1.948	0.200	2.038	0.202	2.347	0.276	2.359
Class 05	Hybrid Sedan	1.393	0.123	1.408	0.125	2.355	0.120	2.610
Class 06	Passenger Ca	1.393	0.123	1.408	0.125	1.733	0.172	1.749
Class 07	Small Pickup	1.528	0.187	1.581	0.190	1.667	0.257	1.678
Class 11	Large Pickup	1.432	0.215	1.437	0.218	1.797	0.271	1.831
Class 12	Vans	1.453	0.181	1.420	0.183	1.825	0.256	1.858

**LFD
COMMENT**

The following figure shows the change for the rate of each class of vehicle as compared to the FY 2008 rates.

State Motor Pool - Rate Growth Rates (Compared for FY 2008 Rates)									
		Budgeted FY 2010				Budgeted FY 2011			
Rental Rate Fees		Assigned Rate	Usage Rate	Assigned Rate	Usage Rate	Assigned Rate	Usage Rate	Assigned Rate	Usage Rate
		Rate	Growth	Rate	Growth	Rate	Growth	Rate	Growth
Class 02	Small Utilities	\$2.543	64.3%	\$0.229	44.8%	\$2.428	56.9%	\$0.234	47.9%
Class 03	Hybrid SUV	1.690	-13.2%	0.167	-16.3%	2.323	19.3%	0.167	-16.3%
Class 04	Large Utilities	2.347	20.5%	0.276	38.3%	2.359	21.1%	0.284	42.3%
Class 05	Hybrid Sedan	2.355	69.1%	0.120	-2.5%	2.610	87.4%	0.124	0.7%
Class 06	Passenger Ca	1.733	24.4%	0.172	39.7%	1.749	25.6%	0.178	44.6%
Class 07	Small Pickup	1.667	9.1%	0.257	37.7%	1.678	9.8%	0.265	42.0%
Class 11	Large Pickup	1.797	25.5%	0.271	26.2%	1.831	27.9%	0.279	29.9%
Class 12	Vans	1.825	25.6%	0.256	41.8%	1.858	27.9%	0.263	45.7%

The rate change information is provided for each budget adjustment except for the statewide present law adjustments. The most significant increase contained in the statewide present law adjustment is inflation costs for gasoline, which would increase costs by \$407,000 in FY 2010 and \$467,000 in FY 2011. These costs increases would impact the per mile usage rates and in comparison to DP 0705 - Increased Repair & Maintenance Costs, which increase the usage rates by roughly \$0.00113 per \$17,769 increase, would have estimated \$0.026 in FY 2010 and \$0.03 in FY 2011 rate impacts. The remaining rate increases are due to programmed annual operating gains.

The rates presented for approval are based on the assumption that the pump price for gasoline will average \$4.30 in FY 2010 and \$4.40 in FY 2011. The gasoline price only impacts the usage rates charged by the program. The assumed prices for gasoline are typical of the peak prices approached during 2008. The price of gasoline price has since dropped significantly from the high levels seen in the summer of 2008. Since the rates approved by the legislature are the maximum the program can charge to its users and since there is great deal of uncertainty in the global economy, approving a rate based on a gasoline price that has recently been approached allows the agency the flexibility to charge lower rates and respond if gasoline prices rise.

**LFD
COMMENT
(cont.)**

In the past, the legislature has approved rates based on assumed gasoline prices that were far below the prices seen when the rates were charged. The agency continued to operate by obtaining a general fund loan to purchase gasoline and this loan is now being repaid through a portion of the assigned time rates being requested. The assigned time rates, depending upon the vehicle class, include \$0.455 to \$0.559 per hour rate components to repay the loan. The loan is being repaid over five years and the first payment was in FY 2008.

**LFD
ISSUE****Disconnect Between Motor Pool Rates and Agency Funding to Pay for the Service**

In aggregate, the rates proposed for the State Motor Pool increase, compared to the base rates, by 29.32 percent in FY 2010 and by 32.08 percent in FY 2011. As stated, these requested State Motor Pool rates are based on gasoline pump prices of \$4.30 per gallon in FY 2010 and \$4.40 per gallon in FY 2011. However, the base funding for user programs to pay these increased fees have only been increased by 19.1 percent for FY 2010 and 20.8 percent for FY 2011. The lower user agency funding is based on State Motor Pool rates determined for gasoline pump prices of \$3.21 per gallon in each fiscal year. Agency funding to pay for State Motor Pool increases is increased by the inflation adjustments included in their statewide present law adjustments.

If the legislature wishes to continue past practices of maintaining a linkage between proprietary fund rates and budgets of the agencies that use the services of the proprietary program it may wish to:

- Adjust the rates for the State Motor Pool down to the rates determined for gasoline pump prices of \$3.21 per gallon
- Adjust budgets for user agencies to match the requested rates for the State Motor Pool

The figure on page P-158 of the executive budget for the State Motor Pool fund indicates the executive has been contemplating tiered rates based on gasoline prices. However, this concept was not submitted as part of the executive budget. The legislature may want to consider this tiered rate approach. If it did approve tiered rates and wanted to maintain the linkage between rates and user agency budgets, it may want to consider making corresponding adjustments to agency budgets.

Proprietary Program Description

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Equipment Program Internal Service - Proposed Budget Table					
Account Name	FY 2010		FY 2011		FY 2011 Total
	Actual Base	Adjustments	FY 2010 Total	Adjustments	
FTE	122.00	1.00	123.00	1.00	123.00
61000 Personal Services	\$7,269,300	\$367,510	\$7,636,810	\$404,815	\$7,674,115
62000 Operating Expenses	12,703,484	1,707,806	14,411,290	1,927,994	14,631,478
63000 Equipment & Intangible Assets	7,061,639	864,000	7,925,639	0	7,061,639
67000 Benefits & Claims	0	0	0	0	0
Total Costs	<u>\$27,034,423</u>	<u>\$2,939,316</u>	<u>\$29,973,739</u>	<u>\$2,332,809</u>	<u>\$29,367,232</u>

Program Description

The Equipment Program is responsible for the acquisition, disposal, repair and maintenance of a fleet of 4,555 individual units. The fleet is comprised of light duty vehicles, single and tandem axle dump trucks, specialized snow removal units, roadway maintenance units, and other specialized equipment. Exclusively, the Department of Transportation's various programs such as Construction, Motor Carrier Services, Maintenance, and Right-of-Way use the fleet. All units are assigned to the various user programs and are charged rental on a bi-weekly basis.

Program Highlights

Equipment Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ Increases in the Equipment Program would result in \$4.5 million in increases to appropriated programs of the Department of Transportation <ul style="list-style-type: none"> • Increases in costs for diesel fuel and gasoline account for most of the program cost increases and would add \$3.4 million over the biennium to costs of the program • Statewide present law adjustments are also major factors for the growth and are primarily due to personal services
Major LFD Issues
<ul style="list-style-type: none"> ◆ 60-day working capital rate is requested but the legislature has other alternatives to impart legislative policy via fiscal actions

Funding

The Equipment Program is funded entirely with internal service type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in HB 2 tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be charged in the biennium. The proprietary funded program is discussed below in the Proprietary Rates section.

The following table shows estimated funding sources for payments made by users of the Equipment Program for the base and the 2011 biennium.

Estimated Funding for Payments to the Equipment Program			
Payment Funding	Base	FY 2010	FY 2011
01000 General Fund	\$2,988	\$0	\$0
02000 State/Other Special Rev. Funds	27,208,973	29,964,232	29,357,725
03000 Federal/Other Spec. Rev. Funds	<u>9,507</u>	<u>9,507</u>	<u>9,507</u>
Total Funding	<u>\$27,221,468</u>	<u>\$29,973,739</u>	<u>\$29,367,232</u>

Program Narrative

Expenses

Base year program costs were driven by the following cost areas:

- Supplies (\$8,472,688), which were dominated by costs for diesel fuel and gasoline
- Equipment purchases (\$7,061,639)
- Personal services (\$6,994,768) supported costs for 122.00 FTE
- Depreciation (\$5,866,067), which is a non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence
- Repair and maintenance costs (\$3,282,544), which were dominated by equipment repair parts, cutting edges and scarifierteeth, tires and tubes, oil and oil filters, grease and lubricants

Many of the costs that dominate program expenditures are strongly influenced by petroleum costs and when petroleum costs are rising, as they have for the past several years, result in increased costs for the program to meet customer service levels.

Revenues

Revenues of the program are derived from fees charged exclusively to other programs of the Department of Transportation. Fees are charged for both possession and use of equipment using a dual rate structure that collects fixed cost under an assigned (time of possession) charge and variable costs under a usage charge. Fixed costs are for expense items such as insurance, depreciation, and indirect costs.

The figure for fund 06508 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure to clarity.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06508	Highway Equipment	54010	Transportation	Equipment Program		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			6,994,768	7,075,695	7,636,810	7,674,115
Other Operating Expenses			<u>18,859,666</u>	<u>18,605,248</u>	<u>22,339,953</u>	<u>21,696,474</u>
Total Operating Expenses			\$25,854,434	\$25,680,943	\$29,976,763	\$29,370,589
Operating Revenues:						
Revenue From Fees			27,433,927	26,543,533	28,237,427	28,507,999
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Other Operating Revenues			<u>159,843</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenue			\$27,593,770	\$26,543,533	\$28,237,427	\$28,507,999
Operating Gain (Loss)			1,739,336	862,590	(1,739,336)	(862,590)
Nonoperating Sources (Uses) (Note 1)			1,351,888	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y			\$62,004,471	\$65,227,190	\$66,089,780	\$64,350,444
Net Increase (Decrease) of Net Assets			3,091,224	862,590	(1,739,336)	(862,590)
Prior Period Adjustments			131,495	0	0	0
Cumulative Effect of Account Change			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets as of June 30 (End of Fiscal Year)			<u>\$65,227,190</u>	<u>\$66,089,780</u>	<u>\$64,350,444</u>	<u>\$63,487,854</u>
Note 1 - Includes gain on sale of asset (\$60,763), capital contribution (\$632,190), and transfer in (\$658,935)						

Present Law

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Equipment Program - Present Law Adjustments				
DP Name	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
DP 0000 Statewide Adjustments	0.00	\$1,771,578	0.00	\$2,028,027
DP 0801 OT/Differential	0.00	57,135	0.00	57,135
DP 0805 Equipment Purchases	0.00	864,000	0.00	0
DP 0806 FTE for St. Regis Shop	1.00	57,324	1.00	57,465
DP 0807 Equipment Repair & Maintenance	0.00	183,963	0.00	185,410
DP 0808 EVMS Maintenance Contract Increas	<u>0.00</u>	<u>1,227</u>	<u>0.00</u>	<u>1,227</u>
Total Present Law Adjustments	<u>1.00</u>	<u>\$2,935,227</u>	<u>1.00</u>	<u>\$2,329,264</u>

DP 0801 - OT/Differential - 801 - An increase of \$114,300 proprietary funds for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$14,900 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. This request increases the assigned rates by \$0.00603 per hour in each year of the biennium.

DP 0805 - Equipment Purchases – An increase of \$864,000 proprietary funds for the biennium is requested to purchase new equipment to be used throughout the equipment program. Equipment to be purchased would include:

- Six tank trailers for use in the salt brining operation
- A pug mill and stacker belt for mixing sand and salt for winter road maintenance
- Used excavator for use in the Missoula district
- Two tandem trucks, one each for Ravalli and Ronan, to meet maintenance needs on US 93 between Ravalli and Ronan

This request has no impact on the rates charged by the program.

DP - 0806 - FTE for St. Regis Shop – An increase of \$114,800 proprietary funds for the biennium is requested to fund the addition of 1.00 FTE to address workload issues for mechanic work in the St. Regis shop attributable to severe winter conditions on passes in the area. This request increases the assigned rates by \$0.006048 per hour in FY 2010 and \$0.006063 per hour in FY 2011.

DP - 0807 - Equipment Repair & Maintenance – An increase of \$369,400 proprietary funds for the biennium is requested to address increased costs of automotive parts and vehicle maintenance products. The increases are for:

- Grease and lube, tires and repair parts (\$115,926)
- Oil (\$98,185)
- Tires (\$155,262)

This request increases the usage rates by \$0.008465 per mile in FY 2010 and \$0.008531 per mile in FY 2011.

DP 0808 - EVMS Maintenance Contract Increases – An increase of \$2,454 proprietary funds for the biennium is requested to fund a 2.5 percent increase in the maintenance contract with Agile Assets for the Equipment and Vehicle Management System (EVMS). This request addresses half of the increases with the other half being funded in the State Motor Pool Program. This request increases the assigned rate by \$0.000129 per hour in each year of the 2011 biennium.

New Proposals

Equipment Program Internal Services Program - New Proposals					
		FY 2010		FY 2011	
DP Name		FTE	Costs	FTE	Costs
DP 0804 Fixed Cost Workers Comp Mgmt Prog Allocat		0.00	\$4,089	0.00	\$3,545

DP 0804 - Fixed Cost Workers Comp Mgmt Prog Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2009 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process. This request represents approximately 0.014 percent of the assigned rate.

Proprietary Rates

For the 2011 biennium the executive requests the legislature approve the following rates for the Equipment Program.

“The fee charges will not be done until the actual fiscal year the rates pertain to. These rates will be supported by the EVMS system, which was used in the past. The Equipment program may charge rates necessary to establish and maintain a 60 day working capital balance to operate the program.”

**LFD
ISSUE**

Fees Not Established - 60-day Working Capital is Not a Fee

Statutory Direction

Montana law states that the executive budget submission must contain a report for internal services funds that includes:

“Fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.”

The above request specifically states that fee for FY 2010 and FY 2011 will not be established until FY 2010 and FY 2011, respectively. Furthermore the program requests that instead of approving non-existent fees, that the legislature provide the program the flexibility to operate as it determines necessary to maintain a 60-day working capital balance to operate the program. The request does not comply with the statutory direction for submission of fees and charges and it provides no fees and charges that the legislature can approve. Montana statute already provides the permissive authority for the program to operate up to a 60-day working capital level. As discussed below, working capital is not a fee the program can charge to its users, it is an accounting parameter.

When asked, the executive stated that the rates were not developed because the agency didn't know what the depreciation costs would be. Depreciation is determined according to accounting standards and agency accounting policies and practices. Depreciation calculations use equipment useful lives that are generally standardized by the type of equipment and agency accounting policy establishes the methodology for allocating the depreciation costs across the life of the equipment. The program has followed these standards and policies for years and should have little difficulty estimating in advance the depreciation costs for the equipment.

60 Days of Working Capital as a Rate

The program charges hundreds of specific rates for equipment used by the other divisions of the department. Montana statute states that the legislature, in the general appropriations act effective for the biennium, approves what would be the maximum level for the fees and charges of internal service fund type programs. Prior to HB 576 of the 1997 Legislature, internal service funds were funded via appropriations of the legislature, which capped the level of expenditures the programs could make during a biennium. HB 576 replaced the appropriation with a requirement for the legislature to approve the maximum level of fees and charges of the program. Maximum fees and charges combined with the statute requirement that fees and charges of internal service funded program must be commensurate with costs indirectly limit the expenditures of the program through its revenue mechanism and serves as a surrogate for an appropriation. Legislatively approved maximum levels for fees and charges also protect user agencies from the proprietary program increasing fees to fund expenditures that may not coincide with legislative policies or which were not anticipated by the legislature.

As stated, the Equipment Program charges specific fees for possession and usage of each type of equipment in its inventory, yet it continues to request that the legislature fulfill its statutory responsibility by approving 60-days of working capital as a rate for the program. The program goes on to state that the actual fees and charges will not be developed until the fiscal year to which they apply.

Working capital is an accounting parameter defined as the difference between current assets and current liabilities. Current assets are assets that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). Current liabilities are liabilities to be paid within one year of the balance sheet date. Since working capital is the mathematical difference between current assets and current liabilities, it can change daily based on timing and levels of expense payments and revenue collections. A limit on the level of working capital does nothing to limit expenses, which through appropriations is how the legislature establishes policies for executive programs. Establishing the maximum level of fees a services providing program can charge its users that

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ISSUE (cont.)**

are commensurate with costs also protects user programs from excessive charges and through the budgeting process allows user agencies appropriations to pay for the services of the program.

Legislative Option for Addressing the Executive Request

Because the program has not proposed fees for the legislature to approve, the legislature may wish to first deliberate over changes in the program's anticipated expenditures as if the program were a HB 2 program. It could do this through the same process used for HB 2 programs by adopting a base and statewide present law adjustment and then determining consensus on decision packages. Once the expenditures are established for the 2011 biennium, it could request the program determine the fees that would correspond to the expenditure assumptions and present them to the legislature for approval.

Alternative Rate for Legislative Approval

An alternative approach the legislature could take is to adopt a limit on the amount of costs it could allocate to user programs. Instead of approving a 60-day working capital rate as proposed by the executive, the legislature could approve a maximum level of which the program could allocate costs to user programs. The report for the internal service fund estimates that revenues of \$28,237,427 for FY 2010 and \$28,507,999 for FY 2011 would fund operations for the 2011 biennium with operating losses of \$2.6 million for the biennium made up from depletion of net assets of the program. The legislature could approve these revenue limits as the maximum levels it could allocate its costs to users. Approving a maximum cost allocation rate would allow the legislature to more directly set policy through fiscal constraints.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	123.00	123.00	131.00	131.00	123.00	131.00	8.00	6.50%
Personal Services	6,118,243	6,534,617	7,763,558	7,801,543	12,652,860	15,565,101	2,912,241	23.02%
Operating Expenses	1,477,519	3,197,172	4,603,502	4,464,370	4,674,691	9,067,872	4,393,181	93.98%
Equipment & Intangible Assets	14,102	22,348	166,102	166,102	36,450	332,204	295,754	811.40%
Total Costs	\$7,609,864	\$9,754,137	\$12,533,162	\$12,432,015	\$17,364,001	\$24,965,177	\$7,601,176	43.78%
State Special	6,050,642	7,075,583	9,287,317	9,292,964	13,126,225	18,580,281	5,454,056	41.55%
Federal Special	1,559,222	2,678,554	3,245,845	3,139,051	4,237,776	6,384,896	2,147,120	50.67%
Total Funds	\$7,609,864	\$9,754,137	\$12,533,162	\$12,432,015	\$17,364,001	\$24,965,177	\$7,601,176	43.78%

Program Description

The Motor Carrier Services Division enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety. The Licensing and Permit Bureau registers interstate fleet vehicles, issues commercial vehicle licenses and oversize/overweight permits, and collects and distributes fees and taxes. The Enforcement Bureau operates a statewide weigh station and mobile enforcement program and assigns uniformed officers to inspect commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws. The Motor Carrier Safety Assistance Program (MCSAP) conducts commercial motor carrier safety compliance reviews and safety audits.

Program Highlights

Motor Carrier Services Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The division HB 2 budget would grow by \$7.6 million, or 43.8 percent, from the 2009 biennium to the 2011 biennium <ul style="list-style-type: none"> • \$3.5 million federal special revenue funding would continue monitoring commercial vehicles for safety issues around Montana's northern border • \$2.1 million state special revenue funding from Unified Carrier Registration fees would fund the Motor Carrier Safety Assistance Program and Expanded Commercial Vehicle Information Systems and Networks projects • \$1.0 million state special revenue would realign the management structure for the enforcement functions from three regions to five regions • \$0.9 million combined state and federal special revenue would fund the addition of 8.00 FTE to increase coverage at I-90 weigh stations to provide 24 hour coverage seven days a week • \$492,000 state special revenue would fund operating costs at a joint port-of-entry at the Montana/Wyoming border 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Funding for the Performance Registration Information System project should be designated as one time only 	

- ◆ The legislature may want to monitor the interim performance of the enforcement function realignment to verify if efficiencies promised are realized
- ◆ A request related to an unfavorable exchange rate with the Canadian dollar may not be needed as the U.S. dollar has strengthened against the Canadian dollar

Program Narrative

2009 Biennium Major Goals Monitored

No goals specific to this program were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

- Decrease the number of commercial vehicle related crashes and fatalities by reducing the number of safety non-compliant commercial vehicles and commercial drivers and motor carriers who operate on Montana roadways through effective vehicle, driver, and motor carrier compliance programs

LFD ISSUE

No Objectives Specified

This goal is central to the purpose for the division. However, the department failed to provide objectives for this goal. Measurable objectives framed in the confines of the budget request and that measure the effectiveness of division operations as they relate to improving safety for the traveling public through enforcement of motor carrier regulations would better allow the legislature to establish an appropriations policy for the division. Decision packages are included that directly relate to providing more operational coverage for weigh stations or improving operational efficiencies through an organizational change. Measurable objectives would allow the legislature to discuss outcomes expected from these budget requests and later evaluate them to determine if the intended outcomes were achieved. For example, establishing measures for evaluating the safety impacts that result from moving to a five-district structure for the motor carrier enforcement function would allow the legislature at a later date to see the effectiveness of funding DP 2212 - MCS Enforcement Bureau Realignment.

The legislature may wish to discuss with the division how it could to provide appropriately written objectives for the goal that are linked to the budget request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Motor Carrier Services Div.							
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000	Total State Special Funds	\$ 6,050,642	79.5%	\$ 9,287,317	74.1%	\$ 9,292,964	74.8%
	02294 Ucr Fund	259,581	3.4%	1,308,579	10.4%	1,308,579	10.5%
	02422 Highways Special Revenue	5,791,061	76.1%	7,978,738	63.7%	7,984,385	64.2%
03000	Total Federal Special Funds	1,559,222	20.5%	3,245,845	25.9%	3,139,051	25.2%
	03166 Mcsap-Truck Inspection Program	932,632	12.3%	3,245,845	25.9%	3,139,051	25.2%
	03407 Highway Trust - Sp Rev	626,590	8.2%	-	-	-	-
Grand	Total	<u>\$ 7,609,864</u>	100.0%	<u>\$ 12,533,162</u>	100.0%	<u>\$ 12,432,015</u>	100.0%

The Motor Carrier Services Division is funded by the highways state special revenue fund and federal special revenue. State funds are revenue from highway user fees such as motor fuel taxes and gross vehicle weight fees. Except for \$2,617,158 unified carrier registration state special revenue all remaining state special revenue for the 2011 biennium is from the constitutionally restricted highways state special revenue account (\$16,163,123). Federal funds are from federal Motor Carrier Safety Assistance Program grants.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	7,609,864	7,609,864	15,219,728	60.96%
Statewide PL Adjustments	0	0	0	0.00%	558,415	581,427	1,139,842	4.57%
Other PL Adjustments	0	0	0	0.00%	1,506,089	1,507,099	3,013,188	12.07%
New Proposals	0	0	0	0.00%	2,858,794	2,733,625	5,592,419	22.40%
Total Budget	\$0	\$0	\$0		\$12,533,162	\$12,432,015	\$24,965,177	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				827,735					849,794	
Vacancy Savings				(277,846)					(278,722)	
Inflation/Deflation				8,526					10,355	
Total Statewide Present Law Adjustments				\$558,415	\$581,427					
DP 2202 - Montana-Wyoming Joint Port Project	0.00	0	245,977	0	245,977	0.00	0	245,977	0	245,977
DP 2205 - Unified Carrier Registration (UCR)	0.00	0	1,027,574	0	1,027,574	0.00	0	1,027,574	0	1,027,574
DP 2208 - Equipment Rental	0.00	0	20,712	11,659	32,371	0.00	0	15,772	8,633	24,405
DP 2210 - OT/Differential	0.00	0	133,524	44,220	177,744	0.00	0	133,524	44,220	177,744
DP 2211 - Training Adjustment	0.00	0	(12,355)	0	(12,355)	0.00	0	(12,355)	0	(12,355)
DP 2214 - Coutts Weight Station	0.00	0	16,798	0	16,798	0.00	0	16,798	0	16,798
DP 2215 - Motor Carrier Safety Assistance Program (MCSAP)	0.00	0	3,596	14,384	17,980	0.00	0	3,596	14,384	17,980
DP 2216 - Laptop Communication Aircard Maintenance	0.00	0	0	0	0	0.00	0	8,976	0	8,976
Total Other Present Law Adjustments										
	0.00	\$0	\$1,435,826	\$70,263	\$1,506,089	0.00	\$0	\$1,439,862	\$67,237	\$1,507,099
Grand Total All Present Law Adjustments				\$2,064,504	\$2,088,526					

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- Market Rate
 - The Motor Carrier Services Division follows the agency policy for market percent (to remain at 103 percent of the 2006 market survey or maintain internal equity within the department) with no exceptions identified
 - The statewide personal services adjustment represents salaries for the division at an estimated 96 percent of market relative to the 2008 executive branch market survey and prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature was 112 percent of market relative to the 2006 executive branch market survey
- Vacancy
 - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention. However, it stated that factors that impact vacancies for the division are largely geographic due to many remote or high cost areas of the state covered by the division. The division uses continuous recruitment to address factors that drive long-term or frequent vacancies, but when long-term vacancies occur overtime is used to mitigate impacts to operations
- Legislatively Applied Vacancy Savings
 - The division used carry forward authority to achieve the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a -9.9 percent vacancy rate, with hours expended exceeding calculated hours available from authorized FTE. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division over spent its personal services authority appropriated by the 2007 Legislature by 0.7 percent.

- Pay Changes

- Pay increases given to division staff were limited primarily to career ladder increases and the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature. The 0.6 percent was given to selected individuals to achieve the agency internal equity policy or who were below the target market ratio for their position. Pay increases outside HB 13 were funded with savings from vacancies

**LFD
COMMENT**

Career ladder increases were given to motor vehicle safety inspectors under the division's career ladder progression plan. Total hourly pay increases given for career ladder progression equated to 40 percent of the total hourly pay increases of the 3 percent HB 13 fixed increase for all division employees. The division has 115 positions or 106.50 FTE in career ladder positions. Of these 115 positions, 14 or 12 percent received career ladder increases in FY 2008.

- Retirements

- The division anticipates nine employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium. The agency was unable to determine the 2011 biennium unfunded compensated absence liability cost if these employees retired

DP 2202 - Montana-Wyoming Joint Port Project - An increase of \$492,000 state special revenue for the biennium is requested to pay half of the maintenance expenses and contracted services for half of the salaries of Wyoming state employees operating the port of entry station operating at Dietz, Wyoming, on the Montana and Wyoming border. The Dietz facility is operated as a joint enforcement effort between the two states. Montana contracts with Wyoming to staff and operate the joint port-of-entry. The contract calls for Wyoming personnel to enforce Montana size and weight laws, issue Montana permits, and collect Montana gross vehicle weight fees. Base year costs only reflect three quarters of a year operations and this request would annualize the costs to reflect the contractual obligations of the Wyoming/Montana agreement. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

Other Joint Ports-of-Entry

Montana operates similar joint ports-of-entry with Idaho and Alberta, Canada under similar cost sharing agreements.

DP 2205 - Unified Carrier Registration (UCR) - An increase of \$2.1 million state special revenue for the biennium is requested for Motor Carrier Safety Assistance Program (MCSAP) and Expanded Commercial Vehicle Information Systems and Networks (ECVISN) projects.

**LFD
COMMENT**

A provision in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) that authorizes federal funding for highways eliminated the Single State Registration System (SSRS) effective January 01, 2007, and required participating states to implement the Uniform Carrier Registration (UCR) program. The UCR program requires individuals and companies that operate commercial motor vehicles in interstate or international commerce to register their business with the state of residence and pay an annual fee based on the size of their fleet. States receive UCR revenue equal to the revenue previously derived from SSRS, which must be used to fund commercial motor carrier safety activities administered through the state Motor Carrier Safety Assistance Program (MCSAP). The 2007 Legislature approved funding for the division UCR activities for FY 2009. Because funding was not approved and expenditures not made in the base year, the executive must request funding for the 2011 biennium.

The division is currently developing a plan to submit to the Federal Motor Carrier Safety Administration (FMCSA) for the Expanded Commercial Vehicle Information Systems and Networks (ECVISN) project. The 2007 Legislature approved \$980,000 federal special revenue for FY 2009 to fund MCSAP and ECVISN projects. However, the funding should have been state special revenue.

DP 2208 - Equipment Rental - An increase of \$56,800 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 2210 - OT/Differential - An increase of \$355,500 combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$46,400 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 2211 - Training Adjustment - A reduction of \$24,700 state special revenue for the biennium is proposed to reduce funding for training. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 2214 - Coutts Weight Station - An increase of \$33,600 state special revenue for the biennium is requested to address cost increases associated with the department's contract with Alberta, Canada, for shared use of the Coutts weigh station and inspection facility. The increase in value of the Canadian dollar and maintenance costs have risen since the contract was approved October 19, 2004. As per the contract with Alberta, Montana is billed annually and the statement is in Canadian dollars. Montana must convert the statement amount to United States currency based on the current exchange rate. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
ISSUE****Return to Favorable Exchange Rate**

When asked, the agency failed to provide the exchange rate assumptions used to develop the decision package, but stated the decision package was based on annual expenditures from FY 2008 as its basis and the decision package was a best guess at the costs for the 2011 biennium.

Expenditures in FY 2008 represent quarterly payments to Alberta based on an invoice of contractual costs in Canadian dollars. FY 2008 represents a year when the exchange rate of the U.S. dollar (USD) was weak against the Canadian dollar (CD). Historically, it is extremely rare for the USD to be weak against the CD. During FY 2008, \$1.0 USD traded for \$0.99 CD. Typically the roles are reversed and \$1 USD trades for about \$1.2 CD. The effect of the weak USD was that higher than typical state expenditures were made to fulfill Montana's contractual commitment for costs to operate the Coutts weigh station. As such, the base is high for these costs.

Since the budget was submitted, the USD has strengthened and as of December 1, 2008, was trading at near its typical level of \$1.0 USD to more than \$1.2 CD. As a result of the strengthening of the USD to its historically typical level, the adjustment is not needed and a justification could be made that a reduction is in order for two reasons: 1) the base is inflated due to a weak USD; and 2) the strengthening of the USD means less state funds are needed to fund the contract costs for the Coutts weigh station.

The legislature may want to discuss with the program how the recent return to a historically typical exchange rate impacts the request.

DP 2215 - Motor Carrier Safety Assistance Program (MCSAP) - An increase of nearly \$36,000 combined state special and federal special revenue for the biennium is requested for increased training and vehicle rental costs of the Motor Carrier Safety Assistance Program (MCSAP). The increased cost is due to training new recruits and in-state work related travel expenses. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 2216 - Laptop Communication Aircard Maintenance - An increase of nearly \$9,000 state special revenue is requested for FY 2011 for monthly air-card charges. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
ISSUE****Air-card**

The Air-card is a digital cellular card that enables patrol officers and their supervisors to securely access state and federal databases from their patrol vehicles using wireless cell phone technology when checking for compliance issues with commercial motor vehicles. FY 2010 funding to provide the service is contained in DP 2206 - Performance Registration Information Systems Mgmt, which is requested below as a new proposal for the division.

New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2201 - Maximization Weigh Station I90 Corridor										
22	8.00	0	385,370	68,006	453,376	8.00	0	385,519	68,033	453,552
DP 2206 - Performance Registration Info Systems Mgmt - OTO										
22	0.00	0	0	173,562	173,562	0.00	0	0	0	0
DP 2207 - Border Enforcement Grant (BEG)										
22	0.00	0	0	1,732,042	1,732,042	0.00	0	0	1,763,633	1,763,633
DP 2212 - MCS Enforcement Bureau Realignment										
22	0.00	0	499,814	0	499,814	0.00	0	516,440	0	516,440
Total	8.00	\$0	\$885,184	\$1,973,610	\$2,858,794	8.00	\$0	\$901,959	\$1,831,666	\$2,733,625

DP 2201 - Maximization Weigh Station I90 Corridor - An increase of nearly \$907,000 combined state special and federal special revenue for the biennium is requested to fund increases of 16 positions, each currently funded at 0.50 FTE to 1.00 FTE each. The increase in the FTE for these positions would increase enforcement presence and allow for 24 hour, 7 days per week, and 365 days per year coverage on the Interstate 90 corridor. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 2206 - Performance Registration Info Systems Mgmt - OTO - An increase of \$173,562 federal special revenue for the FY 2010 is requested for the Performance Registration Information Systems Management (PRISM) project.

**LFD
COMMENT**

Background on PRISM

During FY 2008, no expenditures were made on the Performance Registration Information Systems Management (PRISM) project, but expenditures are anticipated of FY 2009. This request would continue PRISM with future funds available from the Federal Motor Carrier Safety Administration (FMCSA). The FMCSA grant is to purchase hardware, make software enhancements, and for contracted services to enter the data into the data base. The purpose of this grant is to improve the safety of the highways by having the ability to refuse commercial vehicle registration to a commercial vehicle that has an unsatisfactory safety rating. The safety rating is established by the inspections that have been performed on the commercial vehicles either roadside, at scales, or at accidents. Carriers that improved the safety ratings would be able register. There is proposed legislation to refuse the registration of unsafe commercial vehicles. The funding of this grant is not dependant on the proposed legislation.

**LFD
ISSUE**

Candidate for OTO Funding

Funding for this non-recurring information system project is requested only for FY 2010. The legislature may want to designate funding for this request as one time only to keep this non-recurring item out of the base for the 2013 biennium.

DP 2207 - Border Enforcement Grant (BEG) - An increase of \$3.5 million federal special revenue for the biennium is requested to monitor commercial vehicles safety associated with commercial vehicles on all international ports-of-entry along Montana's northern border with Canada.

**LFD
ISSUE****Current Biennium Funding for Border Enforcement**

A budget amendment for nearly \$2.2 million for FY 2008 and an extension into FY 2009 with 5.25 FTE modified was approved by the Governor for federal funds to increase the number of safety inspections and commercial driver's license checks to reduce illegal transport operations on commercial motor vehicles entering the United States via Montana/Canadian ports along and around Montana's northern border. The purpose of the grant was to ensure commercial motor vehicles entering the US from a foreign country are in compliance with commercial vehicle safety standards and regulations, financial responsibility regulations, and registration requirements of the U.S. and to ensure drivers of those vehicles are qualified and properly licensed to operate the commercial motor vehicle. This request would establish this funding as a part of the division's on-going HB 2 funding. When the budget amendment was extended to FY 2009, the documentation indicated that 1.75 FTE would be needed for FY 2010. No FTE are funded in this budget request.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification - The division has identified a corridor that stretches from Idaho on Montana's western border to the North Dakota border in the East. The corridor's southern boundary is US Highway 2 and the Canadian border is the northern boundary. All north/south routes within the corridor boundary will be patrolled by division personnel or monitored using technology as the result of this grant.

The purpose of the grant is to ensure commercial motor vehicles entering the US from a foreign country are in compliance with commercial vehicle safety standards and regulations, financial responsibility regulations and registration requirements of the US and to ensure drivers of those vehicles are qualified and properly licensed to operate the commercial motor vehicle.

The purpose is to increase the safety and security on state and federal highways in Montana by conducting safety inspections and commercial driver license checks and reducing illegal transport operations on commercial motor vehicles entering the United States via Montana/Canadian Ports along and around the northern border. In addition to the safety and credential checks, size and weight and evidence of fuel tax evasion checks are conducted at the same time.

A border enforcement special activity was complete in July of 2008. A total of 326 safety inspections were completed with 46 commercial vehicles placed out of service and 19 drivers placed out of service over a three day period. Had this not been completed, these drivers and commercial vehicles would have been operating unsafely and/or illegally in Montana.

Although Montana and Alberta have jointly operated the Port of Sweet Grass at Coutts, which by the nature of its location is all international traffic, the twelve remaining ports and associated roadways statewide within the corridor have received no international commercial motor vehicle focus. This is due in part to lack of resources. Previous studies have shown that illegal commercial motor vehicle safety and other activities are occurring across the border, so this issue needs to be addressed.

Goal - To detect illegal international commercial motor vehicle safety, credentials and other criminal activities on Montana roadways within and throughout an approximately 600x50 mile corridor across Montana and immediately south of Canada, and enforce federal and state regulations and laws to improve highway safety and security. In addition, detect the commercial motor vehicle illegal transport of cargo and sabotage and reduce these activities through enforcement of applicable federal regulations and state laws.

These outcomes fit into the Montana Department of Transportation's mission statement by providing a safe transportation system and protecting Montana's infrastructure investment.

Performance Criteria - The following performance criteria have been identified:

- Annually perform 1650 commercial motor vehicle safety inspections within the border enforcement corridor. Of the 1650 inspections, 500 will be a full safety inspection of the driver and the vehicle with 100 of these being commercial motor vehicles carrying hazardous materials, 150 safety inspections will be a vehicle walk around, and 1000 safety inspections will be driver only. The performance measure will be the actual number of inspections of each type conducted during the year
- Annually conduct 1300 federal and state credential checks including operating authority, commercial driver license, and insurance. The performance measure is the percentage of out of service drivers as a result of commercial driver license and operating authority violations during the year
- Annually conduct 600 fuel cargo tank checks and certifications. The performance measure is the actual number of cargo tank checks and inspections reported during the year
- At the end of each year, an evaluation based on the percent of violations in each category will be performed. The different levels of each performance criteria will be adjusted the following year to reflect the results of the evaluation

Milestones - The following milestones have been identified:

- Hiring FTE – the seven FTE have already been hired
- Equipment to support enforcement and safety operations – most of the equipment was purchased during the spring and summer of 2008; the remaining cost will be to maintain the equipment
- Upgrade existing and construct new roadside facilities to provide safe locations to stop and inspect commercial motor vehicles – The roadside facilities consist of a paved lane at the roadside with signs, lighting and safety equipment. Two roadside facilities have been installed, one in June of 2008 and the other in September of 2008. In federal FY 2009, another two sites will be installed. No future sites beyond the sites installed in federal FY 2009 have been identified
- Virtual Ports of Entry – Motor Carrier Services Division is in the process of evaluating two virtual ports of entry. These systems will remotely weigh and photograph commercial motor vehicles to identify visual safety or weight violations. The photographs will also read a commercial motor vehicles name and carrier assigned number (US DOT #) which can be used to check credentials and operating authority. The systems can be monitored statewide and enforcement can be dispatched when violations are noticed. The two systems were installed in September 2008. The evaluation will be based on data collected one year prior to September 2008 as the base year and compared with data collected in the next two years. Additional virtual ports of entry will be added in the future depending on the outcome of the evaluation

FTE - Under the current budget amendment funding in the 2009 biennium 7.00 modified FTE were added and all 7.00 FTE have already been hired. Motor Carrier Services (MCS) used modified FTE over contracted services for the following reasons; (1) MCS officers go through the law enforcement training academy and national safety certified training before seeing duty as an officer in the field; (2) MCS officers must report through a chain of command providing better management control, where as a contracted services manager would normally only communicate with a Bureau Chief or program manager; (3) legal considerations for enforcing and issuing commercial motor vehicle and/or driver fines; (4) better control over reporting mandates; and (5) consistency and quality control in reporting of performance measures. 6.00 modified FTE are motor carrier services enforcement officers and the other position is a special projects manager. The 6.00 modified FTE will be patrol enforcement officers focused entirely on border enforcement of commercial motor vehicles. The special projects manager will coordinate and monitor border enforcement activities. This position will also manage the border enforcement grant including purchasing, budgeting, reporting, and compliance with federal regulations. Currently, there are no recruitment issues.

Funding - The funding is 100 percent federal funds and is available through the end of the current federal highway bill (SAFETEA-LU). The department expects the same level of funding to be available through the next federal highway bill.

Obstacles - Future virtual ports of entry may not be funded based on the results of the evaluation. If the results are unfavorable, other technology can be used to focus resources or the technologies will not be implemented.

The federal funding may not be available in the next federal highway bill. If this happens, the agency will absorb the modified FTE as enforcement positions are vacated.

Risks - The increase presence of enforcement on the border deters illegal commercial motor vehicle activities along Montana's 600 plus mile border with Canada. Without enforcement presence, the border in Montana is open to these illegal and dangerous commercial motor vehicle activities.

DP 2212 - MCS Enforcement Bureau Realignment - An increase of \$1 million state special revenue for the biennium is requested to realign the structure of the enforcement function within the division from three regions to 5 regions similar to how the rest of the department is structured. This request would include costs to address the rank structure for the Enforcement Bureau as a result of negotiated agreement. The costs are due to reassignment of existing FTE to promote a more effective, accountable, consistent enforcement plan. The reorganization is designed to provide increased oversight and performance management. The expectation is to realize better accuracy, increased performance and better serving the mission to protect the taxpayer investment towards infrastructure and a safer environment for the traveling public as a result of this plan. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
ISSUE****Performance Measurement**

This request would move the division from a three region to a five region management structure with the stated outcome to increase the effectiveness of the enforcement function. The request relates directly to the key goal identified for the program. The legislature may want to discuss with the division development of performance measures to allow the legislature to monitor realignment to the five-region structure in terms of improvements to program effectiveness and increased safety for Montana citizens.

The legislature may wish to monitor the performance of this realignment during the interim to determine if the realignment is improving the effectiveness of the division's enforcement efforts and if the outcomes stated in the key program goal are being attained.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	9.00	9.00	9.00	9.00	9.00	9.00	0.00	0.00%
Personal Services	616,085	620,178	594,124	597,470	1,236,263	1,191,594	(44,669)	(3.61%)
Operating Expenses	950,314	1,693,345	603,673	301,047	2,643,659	904,720	(1,738,939)	(65.78%)
Equipment & Intangible Assets	10,104	12,800	10,104	10,104	22,904	20,208	(2,696)	(11.77%)
Grants	880,588	973,412	1,854,000	4,000	1,854,000	1,858,000	4,000	0.22%
Transfers	13,701	10,283	13,701	13,701	23,984	27,402	3,418	14.25%
Total Costs	\$2,470,792	\$3,310,018	\$3,075,602	\$926,322	\$5,780,810	\$4,001,924	(\$1,778,886)	(30.77%)
State Special	1,889,421	1,921,746	2,790,813	926,572	3,811,167	3,717,385	(93,782)	(2.46%)
Federal Special	581,371	1,388,272	284,789	(250)	1,969,643	284,539	(1,685,104)	(85.55%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$2,470,792	\$3,310,018	\$3,075,602	\$926,322	\$5,780,810	\$4,001,924	(\$1,778,886)	(30.77%)

Program Description

The Montana Aeronautics Division: 1) facilitates the operation and infrastructure of airports and airways, both public and private, throughout Montana; 2) provides mechanisms for funding airport and aviation related projects throughout the state; 3) registers aircraft and pilots in accordance with Montana laws and regulations; and fosters, promotes, and supervises aviation and aviation safety through educational efforts and programs; and 4) coordinates and supervises aerial search and rescue operations. The division administers a loan and grant program to municipal governments to fund airport improvement projects. The Aeronautics Board approves all loan and grant requests and advises on matters pertaining to aeronautics.

The division serves as a liaison between the State of Montana and various other entities including the U.S. Department of Transportation, the Federal Aviation Administration (FAA), other federal and state entities, and commercial airlines in order to assure the retention and continuation of airline service to Montana's rural communities. The division is also responsible for operation of the air carrier airport at West Yellowstone and for 14 other state-owned airports.

Program Highlights

Aeronautics Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The division HB 2 budget would decline by \$1.8 million, or 30.8 percent, from the 2009 biennium to the 2011 biennium <ul style="list-style-type: none"> • Total funds are reduced by \$1.0 million to remove base funding associated with airport rehabilitation projects undertaken in the base that will not recur in the 2011 biennium • Unspecified program reductions of \$153,000 are proposed to contain expenditures within revenues 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The fund that supports the operation of the division is out of balance and declining 	

Program Narrative

2009 Biennium Major Goals Monitored

No goals specific to this program were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

- Provide for the protection of the flying public and the promotion of flight safety and accident prevention programs and other state aviation interests
 - Coordinate safety programs for pilots and other aviation industry interests

LFD ISSUE The number one policy in statute for aeronautics in Montana is to provide for the protection and promotion of safety in aeronautics. This goal is significant to that statutory policy statement. An issue in the funding discussion identifies a problem with the funding for the basic operation of the division. The legislature may want to monitor this goal and objective during the interim as a means of monitoring what the impacts on this significant policy are from the financial problems the division faces. However, the objective as written for the goal does not provide specific and measurable actions that are time based and would not allow the legislature to establish an appropriations policy for the division and determine its effectiveness at a later date. The objective also does not state what safety programs would be coordinated nor does it state when the programs would be accomplished.

The legislature may wish to discuss with the division appropriately written objectives, which are specific in the actions intended, the time period in which the actions will be taken, and how the actions will be measured.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Aeronautics Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000 Total State Special Funds	\$1,889,421	76.5%	\$2,790,813	90.7%	\$926,572	100.0%
02286 Aeronautical Loan Account	345,495	14.0%	800,000	26.0%	0	-
02287 Aeronautical Grant Account	447,093	18.1%	800,000	26.0%	0	-
02827 Aeronautics Division	1,012,833	41.0%	940,813	30.6%	926,572	100.0%
02962 Airport Pvmnt. Preservation	84,000	3.4%	250,000	8.1%	0	-
03000 Total Federal Special Funds	581,371	23.5%	284,789	9.3%	(250)	0.0%
03060 Aeronautics Division	<u>581,371</u>	<u>23.5%</u>	<u>284,789</u>	<u>9.3%</u>	<u>(250)</u>	<u>0.0%</u>
Grand Total	<u>\$2,470,792</u>	100.0%	<u>\$3,075,602</u>	100.0%	<u>\$926,322</u>	100.0%

The Aeronautics Program, excluding the operations of the West Yellowstone Airport, is funded by both state and federal special revenue funds. State special revenue funds are derived primarily from state aviation fuel taxes and aviation license fees. Federal special revenue comes from Federal Aviation Administration grants. Operations of the West Yellowstone Airport are funded from an enterprise type proprietary fund with revenues that include local property taxes, rentals and leases, concession sales receipts, and landing fees. Because the proprietary funds do not require an appropriation, they are not included in the above table.

**LFD
ISSUE****Declining Fund Balance Aeronautics State Special Revenue Account**

Since FY 2007, the state special revenue account that funds the main operations of the Aeronautics Program has been declining in both fund balance and cash needed to operate the program. The following figure illustrates the fund balance for this account for the current and 2011 biennia. The figure shows that even with reductions contained in decision packages the fund is barely in balance for the 2011 biennium and is running a deficit going into the biennium.

Aeronautics Program Fund Balance Report				
	FY 2009			
	FY 2008 Actual	Appropriated	FY 2010 Budgeted	FY 2011 Budgeted
Operating Expenses:				
Personal Services	\$616,085	\$620,178	\$594,124	\$597,470
Other Operating Expenses	<u>475,675</u>	<u>328,156</u>	<u>346,689</u>	<u>329,102</u>
Total Operating Expenses	1,091,760	948,334	940,813	926,572
Operating Revenues:				
Aviation fuel tax	634,977	636,564	638,155	639,751
Other Operating Revenues	<u>194,360</u>	<u>333,119</u>	<u>295,420</u>	<u>297,592</u>
Total Operating Revenue	829,337	969,683	933,575	937,343
Operating Gain (Loss)	(262,423)	21,349	(7,238)	10,771
Nonoperating Sources (Uses) (Note 1)				
Net Assets as of July 1 (Beginning of Fiscal	121,937	(152,248)	(130,899)	(138,137)
Net Increase (Decrease) of Net Assets	(262,423)	21,349	(7,238)	10,771
Prior Period Adjustments	<u>(11,762)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets as of June 30 (End of Fiscal Year)	<u>(\$152,248)</u>	<u>(\$130,899)</u>	<u>(\$138,137)</u>	<u>(\$127,366)</u>

About 77 percent of the revenues into the fund are from a tax of \$0.02 per gallon on aviation fuel sold in the state, except for fuel sold to the federal defense fuel supply center. These aviation fuel tax revenues are less volatile to rising prices than revenues from automobile fuels because they are derived from taxes paid by commercial air carriers and private aircraft operators. Commercial air carriers, which generate the majority of the aviation fuel tax revenues, are less able to reduce fuel consumption when fuel prices rise than the general traveling public. However, revenues have averaged a 2 percent annual growth over the last four years and are not keeping up with the growth in expenditures.

Expenditures are driven by personal services, which accounted for 56 percent of FY 2008 expenditures. Personal services have been growing by 7 percent except from FY 2006 to FY 2007 when personal services grew by 13.5 percent after the department converted to the broadband pay plan.

The legislature may want request clarification on the reductions and their anticipated impacts on operations, and it may want to consider monitoring the status of the fund during the interim. One way to monitor this situation is through the monitoring of the key goal identified for the agency in the Program Discussion section for this program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	2,470,792	2,470,792	4,941,584	123.48%
Statewide PL Adjustments	0	0	0	0.00%	28,425	33,904	62,329	1.56%
Other PL Adjustments	0	0	0	0.00%	576,040	(1,578,673)	(1,002,633)	(25.05%)
New Proposals	0	0	0	0.00%	345	299	644	0.02%
Total Budget	\$0	\$0	\$0		\$3,075,602	\$926,322	\$4,001,924	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					40,611					44,108
Vacancy Savings					(26,268)					(26,408)
Inflation/Deflation					7,543					8,927
Fixed Costs					6,539					7,277
Total Statewide Present Law Adjustments					\$28,425					\$33,904
DP 4003 - OT/Differential	0.00	0	1,950	0	1,950	0.00	0	1,950	0	1,950
DP 4006 - Training Reduction	0.00	0	(3,942)	0	(3,942)	0.00	0	(3,942)	0	(3,942)
DP 4007 - Aeronautic Grants - BIEN	0.00	0	352,907	0	352,907	0.00	0	(447,093)	0	(447,093)
DP 4008 - Aeronautic Loans - BIEN	0.00	0	454,207	0	454,207	0.00	0	(345,495)	0	(345,495)
DP 4009 - Pavement Preservation System - BIEN	0.00	0	166,000	0	166,000	0.00	0	(84,000)	0	(84,000)
DP 4010 - State System Plan - BIEN	0.00	0	9,871	187,551	197,422	0.00	0	(5,129)	(97,449)	(102,578)
DP 4011 - Aeronautics Division Cost Reduction	0.00	0	(56,899)	(17,021)	(73,920)	0.00	0	(61,909)	(17,022)	(78,931)
DP 4015 - Aeronautics Division Airport Adjustment	0.00	0	(31,500)	(487,084)	(518,584)	0.00	0	(31,500)	(487,084)	(518,584)
Total Other Present Law Adjustments	0.00	\$0	\$892,594	(\$316,554)	\$576,040	0.00	\$0	(\$977,118)	(\$601,555)	(\$1,578,673)
Grand Total All Present Law Adjustments					\$604,465					(\$1,544,769)

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- Market Rate
 - The Aeronautics Program follows the agency policy for market percent (to remain at 103 percent of the 2006 market survey or maintain internal equity within the department) with no exceptions identified

- The statewide personal services adjustment represents salaries for the division at an estimated 96 percent of market relative to the 2008 executive branch market survey and prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature was 112 percent of market relative to the 2006 executive branch market survey
- Vacancy
 - The program has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- Legislatively Applied Vacancy Savings
 - The program shifted funding from other operational areas in order to achieve the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a 0.2 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 0.5 percent, so fell short of achieving the 4 percent applied vacancy saving. The above statistics show that the small size and low turnover in this program impacted its ability to achieve the applied vacancy savings without using funding from other program areas.

- Pay Changes
 - Pay increases given to division staff were limited primarily to the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature, and to bring individuals up to the market rate of the 2006 executive market survey for their occupations. The 0.6 percent and market increases were given to selected individuals to achieve the market levels
 - Funds were shifted from other operational areas to provide the salary increases outside HB 13, but no operational impacts were identified
- Retirements
 - The program anticipates no retirements in the 2011 biennium

DP 4003 - OT/Differential - An increase of \$3,900 state special revenue for the biennium is requested to re-establish the Aeronautics Board per diem at the base level.

DP 4006 - Training Reduction - A reduction of nearly \$7,900 state special revenue for the biennium is proposed to reduce funding for training.

DP 4007 - Aeronautic Grants - BIEN - A reduction of about \$94,200 state special revenue is proposed to establish a biennium funding level of \$800,000 for airport safety and development grants in the first year of the biennium. The full amount of the base would be reduced for FY 2011 while double the base less the amount of the reduction would be established in FY 2010. The executive requests a biennial appropriation for this funding and the base.

DP 4008 - Aeronautic Loans - BIEN - An increase of about \$108,400 state special revenue is requested to establish a biennium funding level of \$800,000 for the aeronautics loan program in the first year of the biennium. The full amount of the base would be reduced for FY 2011 while double the base plus the amount of the increase would be established in FY 2010. The executive requests a biennial appropriation for this funding and the base.

DP 4009 - Pavement Preservation System - BIEN - An increase of \$82,000 state special revenue is requested to establish a biennium funding level of \$250,000 for the pavement preservation grants program in the first year of the biennium. The full amount of the base would be reduced for FY 2011 while double the base plus the amount of the increase would be established in FY 2010. The executive requests a biennial appropriation for this funding and the base.

DP 4010 - State System Plan - BIEN - An increase of \$94,800 combined state special and federal special revenue is requested to establish a biennium funding level of \$300,000 to update the Montana aviation system plan in a

cooperative effort between the department and the Federal Aviation Administration. The executive requests a biennial appropriation for this funding and the base.

DP 4011 - Aeronautics Division Cost Reduction - A reduction of nearly \$152,900 combined state special and federal special revenue is proposed to reduce the program's funding for unspecified program reductions in personal services and operating expenses.

DP 4015 - Aeronautics Division Airport Adjustment - A reduction of just over \$1.0 million combined state special and federal special revenue for the biennium is proposed to reflect the fact that there are no major projects planned in the 2011 biennium for state-owned airports, but the base includes funding for projects at the Lincoln and West Yellowstone Airports.

New Proposals

New Proposals											
	-----Fiscal 2010-----					-----Fiscal 2011-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Fixed Cost Workers Comp Mgmt Program	40	0.00	0	345	0	345	0.00	0	299	0	299
Total	0.00	\$0	\$345	\$0	\$345	0.00	\$0	\$299	\$0	\$299	

DP 6101 - Fixed Cost Workers Comp Mgmt Program - The Workers' Compensation Management program at the Department of Administration was funded by the 2009 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Program - West Yellowstone Airport

Proprietary Program Proposed Budget

The following table summarizes the total executive budget proposal for this proprietary program by year.

West Yellowstone Airport - Proposed Budget					
Budget Item	Actual Base	FY 2010		FY 2011	
		Adjustments	Total	Adjustments	Total
FTE	1.29	0.71	2.00	0.71	2.00
Personal Services	\$131,902	\$18,824	\$150,726	\$19,046	\$150,948
Operating Expense:	74,499	16,791	91,290	16,988	91,487
Equipment	<u>36,197</u>	<u>(26,197)</u>	<u>10,000</u>	<u>(36,197)</u>	<u>0</u>
Total Costs	<u>\$242,598</u>	<u>\$9,418</u>	<u>\$252,016</u>	<u>(\$163)</u>	<u>\$242,435</u>

Proprietary Program Description

The West Yellowstone Airport provides a fly-in gateway to the town of West Yellowstone, Yellowstone Park, and surrounding US Forest Service area recreational opportunities. The airport is seasonal in its operation matching the peak tourist demand of the area from June 1 to September 30. The airport serves as an inter-agency fire control center with

both smoke jumpers and fire retardant bombers located at the airport. The airport accomplishes these missions with extensive facilities to accommodate aircraft of various sizes. The airport has a terminal building with tenants that provide the following functions: cafe, gift shop, two car rental agencies, fixed based operation (FBO) serving general aviation, and Skywest Airlines. The operation of the West Yellowstone Airport is funded from an enterprise type proprietary fund.

Proprietary Funding

The West Yellowstone Airport is funded from revenue derived from landing fees, building space rental fees, fuel flowage fees, sales receipts, and non-aero rentals.

Program Narrative

Expenses from the fund are for personal services for 1.29 FTE and operating expenses such as janitorial supplies, insurance, facility maintenance, and matching funds for federally funded capital improvement projects at the airport.

The figure for fund 06007 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure to clarity.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06007	West Yellowstone Airport	54010	Transportation	Aeronautics Program		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			134,965	151,373	150,726	150,948
Other Operating Expenses			<u>194,570</u>	<u>91,684</u>	<u>101,897</u>	<u>92,170</u>
Total Operating Expenses			\$329,535	\$243,057	\$252,623	\$243,118
Operating Revenues:						
Revenue From Fees			46,638	59,995	58,881	60,430
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Other Operating Revenues			<u>126,178</u>	<u>176,292</u>	<u>173,019</u>	<u>177,570</u>
Total Operating Revenue			\$172,816	\$236,287	\$231,900	\$238,000
Operating Gain (Loss)			(156,719)	(6,770)	(20,723)	(5,118)
Nonoperating Sources (Uses) (Note 1)			195,752	22,587	13,700	13,700
Net Assets as of July 1 (Beginning of Fiscal Y			\$2,314,888	\$2,345,099	\$2,360,916	\$2,353,893
Net Increase (Decrease) of Net Assets			39,033	15,817	(7,023)	8,582
Prior Period Adjustments			(8,822)	0	0	0
Cumulative Effect of Account Change			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets as of June 30 (End of Fiscal Year)			<u>\$2,345,099</u>	<u>\$2,360,916</u>	<u>\$2,353,893</u>	<u>\$2,362,475</u>
Note 1 - Federal indirect cost recovery						

Proprietary Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

West Yellowstone Airport - Present Law Adjustments				
Budget Item	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
Statewide Present Law Adjustments	0.00	(41,163)	0.00	(40,787)
DP 4004 - West Yellowstone Airport	0.71	62,562	0.71	62,593
DP 4014 - West Yellowstone Airport	0.00	(11,981)	0.00	(21,969)
Total Present Law Adjustments	0.71	\$9,418	0.71	(\$163)

DP 4004 - West Yellowstone Airport FTE – An increase of \$125,155 proprietary funds for the biennium to add a total of 0.71 FTE for three existing positions to raise their combined total to 2.00 FTE. Funding includes the addition of state health insurance for two positions in which the FTE level is increased to 0.5 FTE. To maintain its federal airport certification the West Yellowstone Airport will require a full year FTE.

DP 4014 - West Yellowstone Airport Adj. – A reduction of \$33,950 proprietary funds for the biennium is proposed to remove base funding for airport maintenance projects that will not occur in the 2011 biennium.

Proprietary Rates

For the 2011 biennium, the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal. Because the West Yellowstone Airport proprietary fund is an enterprise type fund, statute does not require the legislature to approve the maximum rates the program may charge during the biennium. Instead, the legislature identifies concerns with financial statement provided above. The following rates are provided for informational purposes only.

West Yellowstone Airport - Rates				
	Actuals FY 2008	Budgeted FY 2009	Budgeted FY 2010	Budgeted FY 2011
Landing Fees - Scheduled Air Carrier	\$0.60/1000 lbs	\$1.10/1000lbs	\$1.10/1000 lbs	\$1.10/1000 lbs
Landing Fees - Other uses	11,000-31,250 lbs = \$25.00	9,001-16,500lbs = \$25.00	9,001-16,500lbs = \$25.00	9,001-16,500lbs = \$25.00
Landing Fees - Other uses	>31,250 lbs = \$0.80/1000lbs	>16,500 lbs = \$1.60/1000lbs	>16,500 lbs = \$1.60/1000lbs	>16,500 lbs = \$1.60/1000lbs
Fuel Flowage Fee	\$0.06/Gallon	\$0.06/Gallon	\$0.06/Gallon	\$0.06/Gallon
Building Leases - Car rental, FBO, Air	\$2.00/sq.ft.	\$2.00/sq.ft.	\$2.00/sq.ft.	\$2.00/sq.ft.
Building Leases - Hangar Ground	\$0.10/sq.ft.	\$0.12/sq.ft.	\$0.12/sq.ft.	\$0.12/sq.ft.
Tax Transfers	\$11,000	\$11,000	\$11,000	\$11,000
Sales Receipts	10% of Gross Sales	10% of Gross Sales	10% of Gross Sales	10% of Gross Sales
Non-Aero Rentals				
Nevada Testing	Prior Year = C.P.I	Prior Year = C.P.I	Prior Year = C.P.I	Prior Year = C.P.I
City	\$10,000/Year	\$10,000/Year	\$10,000/Year	\$10,000/Year
Energy West	\$12,500/Year	\$12,500/Year	\$12,500/Year	\$12,500/Year

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	74.60	74.60	76.60	76.60	74.60	76.60	2.00	2.68%
Personal Services	4,572,775	4,790,363	5,143,474	5,169,592	9,363,138	10,313,066	949,928	10.15%
Operating Expenses	3,316,308	6,083,474	3,496,593	3,334,473	9,399,782	6,831,066	(2,568,716)	(27.33%)
Equipment & Intangible Assets	36,089	18,340	36,089	36,089	54,429	72,178	17,749	32.61%
Local Assistance	447,116	407,684	447,116	447,116	854,800	894,232	39,432	4.61%
Grants	12,129,072	22,054,172	13,738,315	13,738,315	34,183,244	27,476,630	(6,706,614)	(19.62%)
Total Costs	\$20,501,360	\$33,354,033	\$22,861,587	\$22,725,585	\$53,855,393	\$45,587,172	(\$8,268,221)	(15.35%)
General Fund	0	0	0	0	0	0	0	n/a
State Special	3,724,372	10,123,393	4,031,258	4,034,038	13,847,765	8,065,296	(5,782,469)	(41.76%)
Federal Special	16,776,988	23,230,640	18,830,329	18,691,547	40,007,628	37,521,876	(2,485,752)	(6.21%)
Total Funds	\$20,501,360	\$33,354,033	\$22,861,587	\$22,725,585	\$53,855,393	\$45,587,172	(\$8,268,221)	(15.35%)

Program Description

The Rail, Transit, and Planning Division provides: 1) a continuous statewide multimodal transportation planning process used to allocate highway program resources to ensure highway system performance goals are maintained and federal-aid highway and transit grant eligibility is maintained within the federal surface transportation programs; 2) an inventory of transportation infrastructure for the allocation of state fuel taxes to local governments; 3) support for the state's comprehensive statewide highway safety plan including technical analysis, performance tracking and coordination with multiple administrative agencies and jurisdictions; 4) the point of contact for MDT for major developers seeking access onto the state's highway system; 5) mapping functions to aid in the publication of the state tourist map and geo-spatial infrastructure inventories; 6) transportation planning and programming assistance to metropolitan and urban areas; 7) administration and implementation of safety programs that help reduce traffic deaths, injuries, and property losses resulting from traffic crashes; and 8) responses to legislative or regulatory actions necessitating representation before courts, congressional hearings, the US Department of Transportation, the Surface Transportation Board, and others. statewide planning program and assistance to local area transportation planning. The planning function addresses system areas that include buses for transit systems, street and highway improvements, railroad track rehabilitation, and transportation enhancements for non-motorized and beautification improvements.

Program Highlights

Rail, Transit, and Planning Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ \$2.1 million federal funds are added to provide grants to local transit entities to purchase buses ◆ \$915,400 federal funds are added to fund projects to implement the department's traffic records strategic plan and to add 1.00 FTE to coordinate the projects ◆ \$344,000 state special revenue is added to increase funding for transit assistance to elderly and disabled individuals to align with revenue projections ◆ \$150,000 is added to provide stipends for maintenance of city park rest areas ◆ A shift in expenditure categories with no funding impacts would provide funding to add 1.00 FTE to coordinate state and tribal highway safety initiatives 	

Major LFD Issues
<ul style="list-style-type: none"> ◆ Performance criteria and milestones to support a funding to fund the addition of staff and projects costs to implement the traffic records strategic plan would be more meaningful if the agency would prioritize and provide key indicators

Program Narrative*2009 Biennium Major Goals Monitored*

No goals specific to this program were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

- Develop and implement a long-range multi-modal construction program that addresses Montana's most important statewide transportation needs, is consistent with statewide long-range transportation plan and management system output, and maximizes the use of federal funds through the Performance Programming Process (P3)
 - Ensure at least 70 percent of available federal and state resources are prioritized into a performance based funding plan to support core state highway system needs (Interstate, national highway, and state primaries) based on system goals defined through P3. P3 outcome goals include:
 - Pavement Condition: provide a ride experience for the traveling public within desirable or superior range (average ride index above 60) with less than 3 percent of lane miles exhibiting poor ride characteristics
 - Reduce the number of structurally deficient and functionally obsolete bridges
 - Maintain average statewide mobility within desirable or superior ranges (level of service C or greater)
 - Lower traffic fatalities to 1.0 per million vehicle miles traveled and incapacitating injuries to 950 per year by 2015

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Rail, Transit, & Planning Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ -	-	\$ -	-	\$ -	-
01100 General Fund	-	-	-	-	-	-
02000 Total State Special Funds	3,724,372	18.2%	4,031,258	17.6%	4,034,038	17.8%
02282 Fta Local Match	612,354	3.0%	616,367	2.7%	616,491	2.7%
02422 Highways Special Revenue	2,883,622	14.1%	3,014,300	13.2%	3,016,957	13.3%
02795 Trans Aid Special Revenue	228,396	1.1%	400,591	1.8%	400,590	1.8%
03000 Total Federal Special Funds	16,776,988	81.8%	18,830,329	82.4%	18,691,547	82.2%
03147 Fta Grants	7,758,410	37.8%	8,855,650	38.7%	8,857,081	39.0%
03407 Highway Trust - Sp Rev	5,809,160	28.3%	6,105,781	26.7%	6,111,297	26.9%
03828 Traffic Safety	<u>3,209,418</u>	<u>15.7%</u>	<u>3,868,898</u>	<u>16.9%</u>	<u>3,723,169</u>	<u>16.4%</u>
Grand Total	<u>\$ 20,501,360</u>	100.0%	<u>\$ 22,861,587</u>	100.0%	<u>\$ 22,725,585</u>	100.0%

The Rail, Transit, and Planning Division is funded with a combination of state and federal special revenue funds. Transit grants are based on a sliding scale, which for Montana is a federal participation rate of 86.58 percent funded with Federal Transit Administration funds. The state match is provided by the local entity receiving services or on a rare occasion with the constitutionally restricted highways state special revenue funds. The remaining division activities after deducting federal transit grants and local matching funds are funded with federal planning and research funds and state special revenue funds at a ratio of 72.9 percent federal and 27.1 percent state special revenue for the 2011 biennium. State special revenue funds include \$1,232,858 in local match pass-through authority, \$801,181 transportation aid funds, and \$6,031,257 highway restricted account funds for the 2011 biennium.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	20,501,360	20,501,360	41,002,720	89.94%
Statewide PL Adjustments	0	0	0	0.00%	398,117	421,480	819,597	1.80%
Other PL Adjustments	0	0	0	0.00%	1,094,394	1,090,766	2,185,160	4.79%
New Proposals	0	0	0	0.00%	867,716	711,979	1,579,695	3.47%
Total Budget	\$0	\$0	\$0		\$22,861,587	\$22,725,585	\$45,587,172	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				601,287					624,281	
Vacancy Savings				(206,961)					(207,881)	
Inflation/Deflation				3,379					4,668	
Fixed Costs				412					412	
Total Statewide Present Law Adjustments				\$398,117					\$421,480	
DP 5001 - Training Reduction	0.00	0	(540)	0	(540)	0.00	0	(540)	0	(540)
DP 5002 - Equipment Rental	0.00	0	4,081	10,665	14,746	0.00	0	3,077	8,041	11,118
DP 5003 - OT/Differential	0.00	0	18,147	10,942	29,089	0.00	0	18,147	10,942	29,089
DP 5004 - Bus Purchases (Federal)	0.00	0	0	1,051,099	1,051,099	0.00	0	0	1,051,099	1,051,099
Total Other Present Law Adjustments										
	0.00	\$0	\$21,688	\$1,072,706	\$1,094,394	0.00	\$0	\$20,684	\$1,070,082	\$1,090,766
Grand Total All Present Law Adjustments				\$1,492,511					\$1,512,246	

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- Market Rate
 - The Rail, Transit, and Planning Division follows the agency policy for market percent (to remain at 103 percent of the 2006 market survey or maintain internal equity within the department) with no exceptions identified
 - The statewide personal services adjustment represents salaries for the division at an estimated 96 percent of market relative to the 2008 executive branch market survey and prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature was 111 percent of market relative to the 2006 executive branch market survey
- Vacancy
 - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- Legislatively applied vacancy savings
 - The division used normal turnover and when vacancies occurred, held positions open in order to achieve the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a 9 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 4.5 percent.

- Pay Changes
 - Pay increases given to division staff were limited primarily to the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature. The 0.6 percent was given to selected individuals to achieve the agency internal equity policy
- Retirements
 - The division anticipates seven employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium. The agency was unable to determine the 2011 biennium unfunded compensated absence liability cost if these employees retired

DP 5001 - Training Reduction - A reduction of \$1,080 state special revenue for the biennium is proposed to reduce funding for training. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 5002 - Equipment Rental - An increase of \$26,000 combined state special and federal special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 5003 - OT/Differential - An increase of \$58,200 combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$7,600 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 5004 - Bus Purchases (Federal) - An increase of \$2.1 million federal special revenue for the biennium is requested to increase funding for grants to purchase buses for local transit entities at the level funded by the 2007 Legislature. Funding would be increased to the level of the federal formula transit funding for Montana. Delays due to a significantly increased funding in FY 2008 resulted in base funding being lower than annual planned expenditures under the federal formula transit funding for Montana.

New Proposals

New Proposals											
-----Fiscal 2010-----						-----Fiscal 2011-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 5005 - Rest Area Stipend	50	0.00	0	75,000	0	75,000	0.00	0	75,000	0	75,000
DP 5006 - Highway Traffic Safety Section 408	50	1.00	0	0	531,575	531,575	1.00	0	0	383,838	383,838
DP 5008 - State Elderly & Disabled Transit Assistance	50	0.00	0	172,194	0	172,194	0.00	0	172,194	0	172,194
DP 5009 - TRANSCAD Software	50	0.00	0	1,799	7,196	8,995	0.00	0	199	796	995
DP 5010 - Traffic Data Collection Support	50	0.00	0	7,412	29,647	37,059	0.00	0	7,412	29,647	37,059
DP 5011 - Tribal Safety Coordinator	50	1.00	0	0	0	0	1.00	0	0	0	0
DP 5012 - Weigh-In-Motion (WIM) Support	50	0.00	0	5,912	23,648	29,560	0.00	0	5,912	23,648	29,560
DP 5013 - Accounting Adjustments	50	0.00	0	1,333	12,000	13,333	0.00	0	1,333	12,000	13,333
Total	2.00	\$0	\$263,650	\$604,066	\$867,716	2.00	\$0	\$262,050	\$449,929	\$711,979	

DP 5005 - Rest Area Stipend - An increase of \$150,000 state special revenue for the biennium is requested to fund a stipend to the city park rest area communities for minor or routine repairs on these rest areas with the understanding that the rest areas are open 24/7 during summer months. The funding is for seven city park rest areas that are beyond the original 10 years the communities had agreed to keep them open. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

City Park Rest Area Program

The City Park Rest Area Program began following a 1989 investigation to address the need for rest areas on state primary and non-interstate national highways. Legislative appropriations were approved in FY 1991 and FY 1995 to convert city parks into city park rest areas readily accessible to the traveling public. Communities receiving state funding to improve city parks to rest areas agreed to operate and maintain the facilities from April to November for at least 10 years. Under the program, city park rest areas have been established in the 13 communities of Malta, Fort Belknap, Harlowton, Twin Bridges, Plentywood, Chester, Cut Bank, Havre, Roundup, Big Sandy, Whitefish, Ennis, and Lewistown. Obligations have been fulfilled for all 13 rest areas in these communities. This request is for funding to provide stipends for all of these communities to keep their city park rest areas open full time during the summer months.

DP 5006 - Highway Traffic Safety Section 408 - An increase of \$915,400 federal special revenue for the biennium is requested to fund the addition of 1.00 FTE to provide project management oversight, team leadership, and coordination for contracted information technology (IT) architecture activities for the federally funded federal transportation safety grant program and intra-agency coordinating committee supporting the implementation of Traffic Records Strategic Plan. Included in the funding is \$750,000 unspecified operating costs to fund indirect, administrative, and training costs along with the following IT projects:

- Emergency Medical Services (EMS)/Health Information and Resource Management System (HIRMS)
- An interface with the Judicial Branch court system
- Enhancements to the Department of Justice SmartCop program

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Section 408 (23 U.S.C. Section 408 for Transportation Safety) grant monies were used during the last biennium to contract information technology (IT) services to design and establish a linked data system. To continue this program, the state still needs resources for the future implementation and management of that system. The funds support the program manager to facilitate the Traffic Records Coordinating Committee (TRCC) responsible for implementing the Traffic Records Strategic Plan.

The traffic records project is a major component of Montana's Comprehensive Highway Safety Plan that addresses improvements in timely and accurate traffic safety data collection for use by key stakeholders. Through the implementation phase, this project will eventually improve the storage, processing, and accessibility of traffic safety related data by multiple state and federal agencies. The project will add cost efficiencies related to the use and sharing of data while preventing duplication of efforts. Additionally, the program manager funded by Section 408 develops reports for the National Highway Traffic Safety Administration (NHTSA) on the progress of the Montana's traffic records program. The department will apply for additional Section 408 grant funds in FY 2009 to continue this project.

Goal: Improvements to the timely and accurate collection of traffic safety data as well as the storage, processing, and accessibility to that data by multiple state and federal agencies. This project will also improve the interoperability of the various traffic safety databases throughout the state at the state and local level.

Performance Criteria: Each key activity or sub-project within the 408 program has specific performance measures that must be met to ensure the continuance of funding each year. There are approximately 20 sub-projects under the program (please reference attachment A).

Milestones: Each sub-project within the program has multiple activities and dates (please reference attachment B).

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ISSUE**

Attachments A and B

Attachment A in the previous performance criteria and Attachment B here are 25 and 20 page documents respectively that list goals and measurements for 20 different goals associated with Section 408 activities stated with 2009 biennium funding. The legislature may want to direct the department to identify the key performance measures and milestones for the request.

FTE: 1.00 FTE would provide project management oversight and team leadership, and would coordinate contracted information technology (IT) architecture. Each project has a defined lead agency and project lead. The contracted program manager funded in this request coordinates the traffic records related projects for the agencies participating in this program

Funding: Current funding is from a grant funded by the National Highway Transportation Administration (NHTSA) from federal fiscal years 2006 through 2009. Qualified states including Montana received \$300,000 the first year, \$500,000 in 2007, and \$500,000 in 2008. Each state has to meet performance measures in accordance with the requirement of the grant based upon the Traffic Records Strategic Plan. MDT will apply for \$500,000 in federal FY 2009. Applications submitted each year to NHTSA includes information about proposed programs defining the purpose, goals, performance measures, key milestones, risks, and costs. After the 2011 biennium, this program will require approximately \$85,000 per year for personal services and \$300,000 per year for operating expenses.

Obstacles: The most significant challenge is the participation level and coordination of the members of the Traffic Records Coordinating Committee (TRCC). The TRCC is responsible for determining the traffic records related projects in support of the goals and objectives of the Section 408 grant.

Risk: The impacts for not adopting the proposal include:

- Traffic safety data will not be accurate, timely, and complete, nor readily exchanged between state and local agencies
- Traffic safety data analysis results will not be readily accessible to the Montana Highway Patrol and local law enforcement for operational decisions including placement of their law enforcement personnel to counter driving-while-intoxicated (DUI) occurrences and other critical traffic violations
- Department safety engineering and pre-construction teams, highway design groups, and maintenance crews rely on current data to assist them in developing strategies that make existing and future roadways safer for the traveling public i.e. placement of rumble strips, guardrails, curb straightening, etc.
- Existing data exchange systems with other states are severely limited and not in compliance with national standards

DP 5008 - State Elderly & Disabled Transit Assistance - An increase of nearly \$344,400 state special revenue for the biennium is requested to increase funding for operating grants for transportation services for persons 60 years of age or older and for persons with disabilities. The funding increase aligns funding with anticipated revenues from an allocation of a general fund transfer to the dedicated fund established for this purpose.

**LFD
COMMENT**
Estimated Revenues

Revenue estimates in the 2011 biennium as approved by the Revenue and Transportation Interim Committee are \$343,000 in FY 2010 and \$336,000 in FY 2011.

DP 5009 - TRANSCAD Software - An increase of nearly \$10,000 combined state and federal special revenue for the biennium is requested to increase the number of traffic modeling software licenses and the associated modeling functions in response to increased demands for traffic demand modeling in urban areas. The request is in anticipation of two new urban areas being added in Columbia Falls and Polson after the next census. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 5010 - Traffic Data Collection Support - An increase of \$74,100 combined state and federal special revenue for the biennium is requested to hire contracted temporary employees to obtain statewide traffic data. Funding would also be used to pay for travel and equipment costs for the temporary employees.

DP 5011 - Tribal Safety Coordinator - A tribal safety coordinator 1.00 FTE would be added with funding expended in the base as contracted services.

**LFD
COMMENT**
Native American Highway Fatalities

According to the department, Native Americans are overrepresented in Montana's highway fatalities. This request is intended to reverse this trend. The position funded with this request would coordinate efforts between the department and tribal partners to implement specialized programs targeted at Native American driving habits as part of the department's Comprehensive Highway Safety Plan. These programs address tribal crash data collection, payment to tribal law enforcement for equipment and overtime patrols, education about impaired driving and occupant protection, training on child occupant protection, and media development to advance a tribal safe-driving message.

DP 5012 - Weigh-In-Motion (WIM) Support - An increase of \$59,100 combined state and federal special revenue for the biennium in combined state and federal special revenue is requested to provide support for weigh-in-motion (WIM) sites installed as a part of the federal Border Enforcement Grant (BEG). Funding consists of a 20 percent state match for federal funds and would: 1) provide support for the video monitoring equipment at the sites; 2) annualize site support costs that occurred after the close of the base year due to grant timing delays; and 3) provide additional travel to remote and distant sites not represented in base funding. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 5013 - Accounting Adjustments - An increase of about \$26,700 combined state and federal special revenue for the biennium is requested for: 1) a no cost accounting change that moves base expenditures from contracted services to grants expenditure category; and 2) an increase in communications of \$13,333 per year to adjust funding to compensate for an ongoing expenditure the department recorded against a one-time-only appropriation in FY 2008. State special revenue funding is entirely from the restricted highways state special revenue account.